

● OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
)
POSTAL RATE AND FEE CHANGES, 2006) Docket No.: R2006-1

VOLUME #37

DESIGNATIONS FROM OTHER DOCKETS

Date: December 5, 2006
Place: Washington, D.C.
Pages: 12532 through 12931

HERITAGE REPORTING CORPORATION

Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005
(202) 628-4888

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATIONS FROM OTHER DOCKETS

<u>Original Docket</u>	<u>Party</u>	<u>Designated Material</u>
	<u>Advo, Inc.</u>	
	Antoinette Crowder (ADVO-RT-1)	
R2005-1	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	ADVO-LR-1 - Admitted into Evidence at Tr. 10/5770 Oral Cross (Tr. 10/5779, line 24 - Tr. 10/5782, line 16)
	<u>American Business Media</u>	
	Lou Bradfield (ABM-T-2)	
C2004-1	American Business Media	1st Segment: Tr. 6/1686, line 1 through Tr. 6/1687, line 8 1st Segment: Tr. 6/1687, line 14 through Tr. 6/1688, line 10 2nd Segment: Tr. 6/1691, line 22 through Tr. 6/1695, line 14 3rd Segment: Tr. 6/1697, line 4 through Tr. 6/1701, line 6

Original Docket PartyDesignated Material**Nicholas Cavnar (ABM-T-1)**

C2004-1 American Business Media

2nd Segment: Tr. 6/1721, line 1 through
53rd Segment: Tr. 6/1722, line 1 through
Tr. 6/1725, line 104th Segment: Tr. 6/1741, line 19 through
Tr. 6/1742, line 165th Segment: Tr. 6/1743, line 3 through
Tr. 6/1745, line 125th Segment: Tr. 6/1745, line 18 through
Tr. 6/1746, line 5**Joyce McGarvy (ABM-T-3)**

C2004-1 American Business Media

Tr. 6/1775, line 1 through line 7

Tr. 6/1776, line 3 through line 23

Tr. 6/1777, line 22 through Tr. 6/1780,
line 5Tr. 6/1782, line 4 beginning with 'Crain is'
through line 12Tr. 6/1783, line 3 through Tr. 6/1786,
line 7

Tr. 6/1787, line 6 through line 22

Original Docket PartyDesignated Material**McGraw-Hill Companies, Inc., The****David Schaefer (MH-T-1)**

C2004-1

McGraw-Hill Companies, Inc.,
The

1st Segment: Cover - Tr. 6/1916

1st Segment: Tr. 6/1919, line 1 through
line 222nd Segment: Tr. 6/1922, line 6
through Tr. 6/1923, line 72nd Segment: Tr. 6/1924, line 15
through Tr. 6/1925, line 42nd Segment: Tr. 6/1925, line 15
beginning with 'Witness') through Tr.
6/1934, line 24 (through footnote 8)2nd Segment: Tr. 6/1937, line 11
through Tr. 6/1943, line 163rd Segment: Tr. 6/1946, line 6 through
Tr. 6/1947, line 94th Segment: Tr. 6/1952, line 15
through Tr. 6/1953, line 85th Segment: - Declaration - Tr. 6/1956-
60

5th Segment: - Exhibits - Tr. 6/1961-62

Original Docket PartyDesignated MaterialTW, Conde Nast, Newsweek, RDA,
and TV Guide**Robert W. Mitchell (TW et al.-T-1)**

C2004-1	American Business Media	ABM/TW et al.-T1-1, 5-6, 10-13, 18, 21-22, 33, 36-37, 40-53, 60-61, 69-71, 76, 79, 83-84, 87-89, 91 MH/TW et al.-T1-6, 8, 19-20, 39-40 NNA/TW et al.-T1-2-3, 13-14, 18 USPS/TW et al.-T1-1-2, 4-5, 7-8, 10 Tr. 3/1142, line 21 through Tr. 3/1152, line 20 Tr. 3/1162, line 13 through line 24 Tr. 3/1164, line 4 through Tr. 3/1165, line 1 Tr. 3/1183, line 18 through Tr. 3/1186, line 19 Tr. 3/1211, line 24 through Tr. 3/1213, line 5 Tr. 3/1214, line 12 through Tr. 3/1218, line 22 Tr. 3/1241, line 21 through Tr. 3/1242, line 2
---------	-------------------------	--

Original Docket PartyDesignated Material

C2004-1 Time Warner Inc.

1st Segment: TW et al.-T-1, page 8 line 1 through page 15, line 9 through 'their mail.'

2nd Segment: TW et al.-T-1, page 15, line 12 through page 16, line 2

3rd Segment: TW et al.-T-1, page 16, line 11 through page 18, line 13

4th Segment: TW et al.-T-1, page 22, line 4 through page 25, line 12

5th Segment: TW et al.-T-1, page 30, line 9 through 21 through 'for processing.'

6th Segment: TW-et al. - T-1, page 35, lines 3-21

7th Segment: TW et al. T-1, page 44, line 1 through 45, line 7 through 'a few years ago.'

8th Segment: TW et al.-T-1, page 51, line 9 through page 52, line 30

9th Segment: TW et al.-T-1, page 55, line 10 through page 56, line 11

Halstein Stralberg (TW et al.-T-2)

C2004-1 American Business Media

ABM/TW et al.-T2-2-3, 11

ABM/TW et al.-T3-42 redirected to T2

USPS/TW et al.-T2-11

Tr. 1/210, line 8 through Tr. 1/226, line 19

Tr. 1/229, line 9 through Tr. 1/231, line 18

Tr. 1/263, line 1 through line 23

C2004-1 Time Warner Inc.

Sole Segment: TW et al.-T-2 at page 5, line 1 through page 12, line 9

<u>Original Docket</u>	<u>Party</u>	<u>Designated Material</u>
<u>United States Postal Service</u>		
Linda A. Kingsley (USPS-T-39)		
R2001-1	Time Warner Inc.	AOL-TW/USPS-T39-10-14, 16-19
R2001-1	United States Postal Service	AOL-TW/USPS-T39-9
Marc D. McCrery (USPS-T-29)		
R2005-1	Time Warner Inc.	TW/USPS-T11-5a, c, h-k, 6d-h, 7a, e, g-j, 8d, f-j, 9b-e redirected to T29
Michael W. Miller (USPS-RT-1)		
C2004-1	United States Postal Service	Rebuttal Testimony of Michael W. Miller (USPS-RT-1) - In Its Entirety
Michael W. Miller (USPS-T-19)		
R2005-1	Time Warner Inc.	TW/USPS-T19-2-6
Pranab Shah (USPS-T-1)		
N2006-1	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	VP/USPS-T1-6, 14d, 15
Rachel Tang (USPS-RT-2)		
C2004-1	United States Postal Service	Rebuttal Testimony of Rachel Tang (USPS-RT-2) - In Its Entirety
		Response of Postal Service Witness Tang (USPS-RT-2) to NOI No. 1, Concerning Periodicals Data (In Its Entirety)
		Response of Postal Service Witness Tang (USPS-RT-2) to POIR No. 2, (In Its Entirety)
Eliane Van-Ty-Smith (USPS-T-11)		
R2005-1	United States Postal Service	TW/USPS-T11-5b, d-e, g, 6a-c, 7b-d, f, 8a-c, 9a

Original Docket Party

Designated Material

Institutional

R2001-1

Time Warner Inc.

AOL-TW/USPS-25-32

**Valpak Direct Marketing Systems,
Inc. and Valpak Dealers' Association
Inc.**

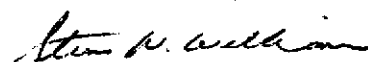
John Haldi (VP-T-2)

R2005-1

Valpak Direct Marketing
Systems, Inc. and Valpak
Dealers' Association Inc.

ADVO-XE-11 - (Tr. 9/5678 Admitted into
Evidence at Tr. 9/5667)

Respectfully submitted,



Steven W. Williams
Secretary

DESIGNATED MATERIALS FROM OTHER DOCKETS

<u>Original Docket</u>	<u>Designated Materia</u>	<u>Designating Parties</u>
------------------------	---------------------------	----------------------------

Advo, Inc.**Antoinette Crowder (ADVO-RT-1)**

R2005-1	ADVO-LR-1 - Admitted into Evidence at Tr. 10/5770	Valpak
	Oral Cross (Tr. 10/5779, line 24 - Tr. 10/5782, line 16)	Valpak

American Business Media**Lou Bradfield (ABM-T-2)**

C2004-1	1st Segment: Tr. 6/1686, line 1 through Tr. 6/1687, line 8	ABM
	1st Segment: Tr. 6/1687, line 14 through Tr. 6/1688, line 10	ABM
	2nd Segment: Tr. 6/1691, line 22 through Tr. 6/1695, line 14	ABM
	3rd Segment: Tr. 6/1697, line 4 through Tr. 6/1701, line 6	ABM

Nicholas Cavnar (ABM-T-1)

C2004-1	2nd Segment: Tr. 6/1721, line 1 through 5	ABM
	3rd Segment: Tr. 6/1722, line 1 through Tr. 6/1725, line 10	ABM
	4th Segment: Tr. 6/1741, line 19 through Tr. 6/1742, line 16	ABM
	5th Segment: Tr. 6/1743, line 3 through Tr. 6/1745, line 12	ABM
	5th Segment: Tr. 6/1745, line 18 through Tr. 6/1746, line 5	ABM

Joyce McGarvy (ABM-T-3)

C2004-1	Tr. 6/1775, line 1 through line 7	ABM
	Tr. 6/1776, line 3 through line 23	ABM

<u>Original Docket</u>	<u>Designated Materia</u>	<u>Designating Parties</u>
C2004-1	Tr. 6/1777, line 22 through Tr. 6/1780, line 5	ABM
	Tr. 6/1782, line 4 beginning with 'Crain is' through line 12	ABM
	Tr. 6/1783, line 3 through Tr. 6/1786, line 7	ABM
	Tr. 6/1787, line 6 through line 22	ABM

McGraw-Hill Companies, Inc., The

David Schaefer (MH-T-1)

C2004-1	1st Segment: Cover - Tr. 6/1916	McGraw-Hill
	1st Segment: Tr. 6/1919, line 1 through line 22	McGraw-Hill
	2nd Segment: Tr. 6/1922, line 6 through Tr. 6/1923, line 7	McGraw-Hill
	2nd Segment: Tr. 6/1924, line 15 through Tr. 6/1925, line 4	McGraw-Hill
	2nd Segment: Tr. 6/1925, line 15 beginning with 'Witness') through Tr. 6/1934, line 24 (through footnote 8)	McGraw-Hill
	2nd Segment: Tr. 6/1937, line 11 through Tr. 6/1943, line 16	McGraw-Hill
	3rd Segment: Tr. 6/1946, line 6 through Tr. 6/1947, line 9	McGraw-Hill
	4th Segment: Tr. 6/1952, line 15 through Tr. 6/1953, line 8	McGraw-Hill
	5th Segment: - Declaration - Tr. 6/1956-60	McGraw-Hill
	5th Segment: - Exhibits - Tr. 6/1961-62	McGraw-Hill

TW, Conde Nast, Newsweek, RDA, and TV Guide

Robert W. Mitchell (TW et al.-T-1)

C2004-1	ABM/TW et al.-T1-1	ABM
	ABM/TW et al.-T1-5	ABM
	ABM/TW et al.-T1-6	ABM
	ABM/TW et al.-T1-10	ABM

<u>Original Docket</u>	<u>Designated Materia</u>	<u>Designating Parties</u>
C2004-1	ABM/TW et al.-T1-11	ABM
	ABM/TW et al.-T1-12	ABM
	ABM/TW et al.-T1-13	ABM
	ABM/TW et al.-T1-18	ABM
	ABM/TW et al.-T1-21	ABM
	ABM/TW et al.-T1-22	ABM
	ABM/TW et al.-T1-33	ABM
	ABM/TW et al.-T1-36	ABM
	ABM/TW et al.-T1-37	ABM
	ABM/TW et al.-T1-40	ABM
	ABM/TW et al.-T1-41	ABM
	ABM/TW et al.-T1-42	ABM
	ABM/TW et al.-T1-43	ABM
	ABM/TW et al.-T1-44	ABM
	ABM/TW et al.-T1-45	ABM
	ABM/TW et al.-T1-46	ABM
	ABM/TW et al.-T1-47	ABM
	ABM/TW et al.-T1-48	ABM
	ABM/TW et al.-T1-49	ABM
	ABM/TW et al.-T1-50	ABM
	ABM/TW et al.-T1-51	ABM
	ABM/TW et al.-T1-52	ABM
	ABM/TW et al.-T1-53	ABM
	ABM/TW et al.-T1-60	ABM
	ABM/TW et al.-T1-61	ABM
	ABM/TW et al.-T1-69	ABM
	ABM/TW et al.-T1-70	ABM
	ABM/TW et al.-T1-71	ABM

<u>Original Docket</u>	<u>Designated Materia</u>	<u>Designating Parties</u>
C2004-1	ABM/TW et al.-T1-76	ABM
	ABM/TW et al.-T1-79	ABM
	ABM/TW et al.-T1-83	ABM
	ABM/TW et al.-T1-84	ABM
	ABM/TW et al.-T1-87	ABM
	ABM/TW et al.-T1-88	ABM
	ABM/TW et al.-T1-89	ABM
	ABM/TW et al.-T1-91	ABM
	MH/TW et al.-T1-6	ABM
	MH/TW et al.-T1-8	ABM
	MH/TW et al.-T1-19	ABM
	MH/TW et al.-T1-20	ABM
	MH/TW et al.-T1-39	ABM
	MH/TW et al.-T1-40	ABM
	NNA/TW et al.-T1-2	ABM
	NNA/TW et al.-T1-3	ABM
	NNA/TW et al.-T1-13	ABM
	NNA/TW et al.-T1-14	ABM
	NNA/TW et al.-T1-18	ABM
	USPS/TW et al.-T1-1	ABM
	USPS/TW et al.-T1-2	ABM
	USPS/TW et al.-T1-4	ABM
	USPS/TW et al.-T1-5	ABM
	USPS/TW et al.-T1-7	ABM
	USPS/TW et al.-T1-8	ABM
	USPS/TW et al.-T1-10	ABM
	1st Segment: TW et al.-T-1, page 8 line 1 through page 15, line 9 through 'their mail.'	TW

<u>Original Docket</u>	<u>Designated Materia</u>	<u>Designating Parties</u>
C2004-1	2nd Segment: TW et al.-T-1, page 15, line 12 through page 16, line 2	TW
	3rd Segment: TW et al.-T-1, page 16, line 11 through page 18, line 13	TW
	4th Segment: TW et al.-T-1, page 22, line 4 through page 25, line 12	TW
	5th Segment: TW et al.-T-1, page 30, line 9 through 21 through 'for processing.'	TW
	6th Segment: TW-et al. - T-1, page 35, lines 3-21	TW
	7th Segment: TW et al. T-1, page 44, line 1 through 45, line 7 through 'a few years ago.'	TW
	8th Segment: TW et al.-T-1, page 51, line 9 through page 52, line 30	TW
	9th Segment: TW et al.-T-1, page 55, line 10 through page 56, line 11	TW
	Tr. 3/1142, line 21 through Tr. 3/1152, line 20	ABM
	Tr. 3/1162, line 13 through line 24	ABM
	Tr. 3/1164, line 4 through Tr. 3/1165, line 1	ABM
	Tr. 3/1183, line 18 through Tr. 3/1186, line 19	ABM
	Tr. 3/1211, line 24 through Tr. 3/1213, line 5	ABM
	Tr. 3/1214, line 12 through Tr. 3/1218, line 22	ABM
	Tr. 3/1241, line 21 through Tr. 3/1242, line 2	ABM
Halstein Stralberg (TW et al.-T-2)		
C2004-1	ABM/TW et al.-T2-2	ABM
	ABM/TW et al.-T2-3	ABM
	ABM/TW et al.-T2-11	ABM
	ABM/TW et al.-T3-42 redirected to T2	ABM

<u>Original Docket</u>	<u>Designated Materia</u>	<u>Designating Parties</u>
C2004-1	USPS/TW et al.-T2-11	ABM
	Sole Segment: TW et al.-T-2 at page 5, line 1 through page 12, line 9	TW
	Tr. 1/210, line 8 through Tr. 1/226, line 19	ABM
	Tr. 1/229, line 9 through Tr. 1/231, line 18	ABM
	Tr. 1/263, line 1 through line 23	ABM

United States Postal Service

Linda A. Kingsley (USPS-T-39)

R2001-1	AOL-TW/USPS-T39-9	USPS
	AOL-TW/USPS-T39-10	TW
	AOL-TW/USPS-T39-11	TW
	AOL-TW/USPS-T39-12	TW
	AOL-TW/USPS-T39-13	TW
	AOL-TW/USPS-T39-14	TW
	AOL-TW/USPS-T39-16	TW
	AOL-TW/USPS-T39-17	TW
	AOL-TW/USPS-T39-18	TW
	AOL-TW/USPS-T39-19	TW

Marc D. McCrery (USPS-T-29)

R2005-1	TW/USPS-T11-5a redirected to T29	TW
	TW/USPS-T11-5c redirected to T29	TW
	TW/USPS-T11-5h redirected to T29	TW
	TW/USPS-T11-5i redirected to T29	TW
	TW/USPS-T11-5j redirected to T29	TW
	TW/USPS-T11-5k redirected to T29	TW
	TW/USPS-T11-6d redirected to T29	TW
	TW/USPS-T11-6e redirected to T29	TW
	TW/USPS-T11-6f redirected to T29	TW

<u>Original Docket</u>	<u>Designated Materia</u>	<u>Designating Parties</u>
R2005-1	TW/USPS-T11-6g redirected to T29	TW
	TW/USPS-T11-6h redirected to T29	TW
	TW/USPS-T11-7a redirected to T29	TW
	TW/USPS-T11-7e redirected to T29	TW
	TW/USPS-T11-7g redirected to T29	TW
	TW/USPS-T11-7h redirected to T29	TW
	TW/USPS-T11-7i redirected to T29	TW
	TW/USPS-T11-7j redirected to T29	TW
	TW/USPS-T11-8d redirected to T29	TW
	TW/USPS-T11-8f redirected to T29	TW
	TW/USPS-T11-8g redirected to T29	TW
	TW/USPS-T11-8h redirected to T29	TW
	TW/USPS-T11-8i redirected to T29	TW
	TW/USPS-T11-8j redirected to T29	TW
	TW/USPS-T11-9b redirected to T29	TW
	TW/USPS-T11-9c redirected to T29	TW
	TW/USPS-T11-9d redirected to T29	TW
	TW/USPS-T11-9e redirected to T29	TW
Michael W. Miller (USPS-RT-1)		
C2004-1	Rebuttal Testimony of Michael W. Miller (USPS-RT-1) - In Its Entirety	USPS
Michael W. Miller (USPS-T-19)		
R2005-1	TW/USPS-T19-2	TW
	TW/USPS-T19-3	TW
	TW/USPS-T19-4	TW
	TW/USPS-T19-5	TW
	TW/USPS-T19-6	TW

<u>Original Docket</u>	<u>Designated Material</u>	<u>Designating Parties</u>
Pranab Shah (USPS-T-1)		
N2006-1	VP/USPS-T1-6	Valpak
	VP/USPS-T1-14d	Valpak
	VP/USPS-T1-15	Valpak
Rachel Tang (USPS-RT-2)		
C2004-1	Rebuttal Testimony of Rachel Tang (USPS-RT-2) - In Its Entirety	USPS
	Response of Postal Service Witness Tang (USPS-RT-2) to NOI No. 1, Concerning Periodicals Data (In Its Entirety)	USPS
	Response of Postal Service Witness Tang (USPS-RT-2) to POIR No. 2, (In Its Entirety)	USPS
Eliane Van-Ty-Smith (USPS-T-11)		
R2005-1	TW/USPS-T11-5b	USPS
	TW/USPS-T11-5d	USPS
	TW/USPS-T11-5e	USPS
	TW/USPS-T11-5g	USPS
	TW/USPS-T11-6a	USPS
	TW/USPS-T11-6b	USPS
	TW/USPS-T11-6c	USPS
	TW/USPS-T11-7b	USPS
	TW/USPS-T11-7c	USPS
	TW/USPS-T11-7d	USPS
	TW/USPS-T11-7f	USPS
	TW/USPS-T11-8a	USPS
	TW/USPS-T11-8b	USPS
	TW/USPS-T11-8c	USPS
	TW/USPS-T11-9a	USPS

<u>Original Docket</u>	<u>Designated Material</u>	<u>Designating Parties</u>
------------------------	----------------------------	----------------------------

Institutional

R2001-1	AOL-TW/USPS-25	TW
	AOL-TW/USPS-26	TW
	AOL-TW/USPS-27	TW
	AOL-TW/USPS-28	TW
	AOL-TW/USPS-29	TW
	AOL-TW/USPS-30	TW
	AOL-TW/USPS-31	TW
	AOL-TW/USPS-32	TW

**Valpak Direct Marketing Systems, Inc. and Valpak
Dealers' Association Inc.****John Haldi (VP-T-2)**

R2005-1	ADVO-XE-11 - (Tr. 9/5678 Admitted into Evidence at Tr. 9/5667)	Valpak
---------	---	--------

R2005-1

Advo, Inc.

**Antoinette Crowder
(ADVO-RT-1)**

[R2005-1

Tr. 10/ 5770

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

(The documents referred to,
previously identified as
ADVO-LR-1 and ADVO-LR-2 were
received in evidence.)

Heritage Reporting Corporation
(202) 628-4888

[R2005-1

Tr. 10/ 5779

24 First of all, Witness Kelley, his original
25 estimate, based on the household diary survey, was

Heritage Reporting Corporation
(202) 628-4888

[R2005-1

Tr. 10/ 5780

1 3.375 billion DALs, and that's on this chart also.

2 A That's the total national number.

3 Q Yes.

4 A Okay.

5 Q As you said, for the base year.

6 A Uh-huh.

7 Q And that then after Mr. Kelley had his
8 estimate, Dr. Haldi filed his initial testimony, and
9 that estimate was 5.4 billion DALs. Correct?

10 A Yes, sir.

11 Q Okay. And then Dr. Haldi testified here or
12 there on a Wednesday, and on Monday we got in the Advo
13 responses, which gave clarity to what we thought we
14 understood about the numbers from the SEC filings, and
15 so Dr. Haldi revised his testimony on Tuesday, the day
16 before he appeared, down to 4.5 billion. Is that
17 correct, as you recall?

18 A (Laughter.) I'm not real good at
19 remembering numbers.

20 Q Okay.

21 A If you say so, that's what it was. I know
22 that we adjusted it slightly below that.

23 Q And that's really my question.

24 A That's about it. That's about it.

25 Q My understanding is that the number you use

Heritage Reporting Corporation
(202) 628-4888

[R2005-1

Tr. 10/ 5781

1 in your Library Reference 1 on the DAL sheet there,
2 that you use 4.315 billion DALs. Is that correct?

3 A Hold on just a minute. Let me just make
4 sure.

5 Q Take your time.

6 A Yes. The estimate is really not my
7 estimate. I wouldn't call it my estimate. It's what
8 we've got. We just simply took Dr. Haldi's numbers,
9 and then they were adjusted to reflect that there were
10 some -- I believe it was in the other category -- that
11 really were not saturation, detached-label mailings,
12 and so those were pulled out. The remainder that he
13 had proposed was left in there, and so the result is
14 4.315 billion total national.

15 Q Okay. So in terms of the validity of that
16 as being an accurate number, you said it wasn't your
17 estimate. Are you saying that's the number the
18 Commission should use as it goes forward?

19 A That's the only number I have, sir. It's
20 the only number I have.

21 Q Would it be fair to say that that number
22 includes the Advo family of companies and Hart Hanks
23 and another -- I believe it's 160 million that were on
24 Mr. McLaughlin's cross-examination exhibit for Dr.
25 Haldi as DALs?

Heritage Reporting Corporation
(202) 628-4888

[R2005-1]

Tr. 10/ 5782

1 A Yeah. That sounds about right, uh-huh.

2 Q Okay. In other words, it's the ones that
3 you counted. There is no estimate in there for the
4 unknown, for smaller DAL mailers around the country
5 that were not on those lists that Dr. Haldi provided.
6 Correct? It's only the ones you could count; you're
7 not estimating --

8 A I took Dr. Haldi's numbers and just made
9 that one adjustment, and that's what I've gotten.
10 That's the best estimate I have, so that's what I
11 used.

12 Q Do you have an opinion as to whether that's
13 the estimate the Commission should use?

14 A If the choice is between the 4.3 and the
15 3.4, then 4.3 looks like it's more accurate, and I
16 think that's what they should use.

C2004-1

American Business Media

**Lou Bradfield
(ABM-T-2)**

ABM-T-2

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF LOU BRADFIELD
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

1 My name is Lou Bradfield, and I am submitting this testimony on behalf of
2 American Business Media. The general purpose of my testimony is to respond to
3 certain assertions and assumptions that have been put forth by the complainants to
support a radical and, I believe, potentially very harmful change in Periodicals rate
5 design. As someone with substantial experience in both the printing and distribution
6 sides of the business, and who has worked with both large and small circulation
7 periodicals, I think that I am well equipped to comment on some of the issues raised by
8 the proposal.

9 Many businesses, including publishers and printers, have developed business
10 models based upon the type of rate structure that has been in existence for many
11 decades, a structure that has changed gradually over the years to reflect changes in
12 processing costs and to more fully reflect those costs.

13 Adaptation to these changes has for the most part been possible, although, also
for the most part, smaller circulation Periodicals appear to have absorbed more of a
15 burden than larger circulation Periodicals. For example, I recall that in Docket No.

[C2004-1]

1 MC95-1, the reclassification case in which I testified for what was then American
2 Business Press, the Commission rejected the proposed split of the Periodicals class but
3 recommended rate changes, such as a very large increase in the carrier route discount
4 (§ 5328), that caused the rates for smaller circulation periodicals to increase while those
5 for the largest publications decreased. I understand that per copy postage for Time and
6 Sports Illustrated are now about what they were prior to the decision in MC95-1, and
7 that as proposed they would be lower than they were a decade and several rate
8 increases ago.

9

10

11

12

13 Autobiographical Sketch

14 My present position is Corporate Distribution Director for VNU Business
15 Publications, where I have been employed for two years. VNU publishes forty- eight
16 titles, among them some that are relatively known, such as The Hollywood Reporter,
17 Billboard, and AdWeek, and some that are highly specialized and well known only in
18 their field, such as Beverage World, Sales & Marketing Management and one of witness
19 Gordon's favorites, Kirkus Review. My present responsibilities include managing the
20 mailing and distribution of all of VNU's titles.

21 Prior to joining VNU, I held similar positions over the past twenty-two years at
22 Cahners Publishing (now Reed Elsevier), Mack Printing (now Cadmus),

1 and TV Guide Magazine where I handled both production and distribution functions. In
2 addition, I have also consulted for Dennis Publishing, Deutsche Post Global Mail and
3 others.

4 I have been a MTAC member for several years and the Industry Co-Chair for the
5 USPS Periodicals Focus Groups in the Eastern and Capital Metro Areas since 1994. I
6 have spoken at Postal Forums and MAILCOM, and am a Certified Mail and Distribution
7 Systems Manager (from Mail Systems Management Association). I have also attained
8 the Periodicals Professional Certificate from the USPS. I have a certificate in Criminal
9 Justice from Villanova University and Associate in Arts degree from California State
10 Merced.

11

12

13

14

15

16

17

18

19

20

21

22

[C2004-1

Tr. 6/ 1691

22 First, however, I must discuss cost-based rates some more. To begin with, as
I've already said, the complainants treat maximization of cost basing and the "efficiency"

1 it would create as if they were the 11th commandment. But they are not. We all agree
2 that rates should to some degree reflect costs, and they already do, as I will show. But
3 the fine tuning in the proposal—creating a rate element for virtually every cost-causing
4 characteristic—is not the appropriate goal of postal rate making, especially for
5 Periodicals.

6 The Commission knows this. In Docket No. R-87-1, at ¶ 5510, it said: "There
7 are criteria in the Act besides those looking to economic efficiency. . . ." In Docket No.
8 R94-1, it ruled that Section 101(a) of the Postal Reorganization Act requires
9 considerations of all policy objectives "rather than allowing efficiency to dominate." It
10 put these theories to work in the reclassification case, Docket No. MC95-1, a case in
11 many ways like this one. There, according to the Commission (page ii), under the rate
12 structure proposed for Periodicals, "publishers of small publications and small
13 circulation newspapers would pay more [and] . . . large circulation publishers would pay
14 less." More specifically, an average of 17% more and 14% less (¶ 5122). The
15 Commission rejected major changes to the Periodicals rate structure, finding (¶ 5134)
16 with words still appropriate that it would be wrong to place "excessive emphasis on
17 'driving costs from the system' and 'changing mailers' behavior'" without full
18 appreciation for the impact on those that cannot change or could do so "only after
19 considerable adjustments in about every aspect of their operations. . . ." It determined
20 (¶ 5132) that the proposal there, like the proposal here, might "make the formation of
21 new periodicals more difficult by withholding the most favorable rates from publications
22 which have not attained significant levels of market penetration."

1 From the complainants' complaints one would think that today's Periodicals rates
are randomly developed and not based on costs and are aberrational in that regard.

3 From my perspective, not only are Periodicals rates cost based, they are over time
4 becoming increasingly cost based, and they are probably more cost based than the
5 rates that apply to most mail. One way to demonstrate on a general basis that
6 Periodicals rates are cost-based is to compare the rates for the periodicals that are less
7 costly for the Postal Service to handle with the rates for those that are the more costly.

8 This comparison was made by American Business Media witness McGarvy, who
9 compared the rates paid by Time Warner's weeklies with the rate Crain pays for a
10 publication of equivalent weight and ad content. Crain's rate is 66% higher. Another
11 place to look is at the rates paid by the complainants themselves for a single publication
mailed in mass quantities for its main file mailing and mailed in smaller quantities in

13 supplemental mailings. The data at Tr. 73 to 75 and 116 to 126 (see also Tr. 263)
14 contain telling comparisons, for example:

- 15 • Money's main file mailing contained 1.8 million pieces, with per piece postage of
16 22.96¢. Its supplemental mailing contained 17 thousand pieces at 38.19¢ per
17 piece, or 66% higher (coincidentally the same difference shown by witness
18 McGarvy).
- 19 • The main filing mailing of Conde Nast's Bon Appetite contained 1.1 million pieces
20 and paid postage of 36.86¢ per piece, while the 28,067 piece supplemental
21 mailing paid an unappetizing 46.72¢ per piece, a 27% difference.
- 22 • Conde Nast's Brides pays 55¢ per (heavy) copy in its main file of 127,000, but
23 84¢, or 53%, more for its supplemental mailing of 5,890.

24 Time and Conde Nast do not pay these much higher rates because they like to,
25 and the Postal Service does not charge more for the supplemental mailings to
discourage small mailings more typical of American Business Media member
27 circulation. Rather, the rates for the supplemental mailings are higher because the

[C2004-1

Tr. 6/ 1694

1 Postal Service's costs for these smaller, less work-shared mailings are higher, and the
2 cost based rates in effect today reflect those cost differences. Witness Stralberg
3 confirmed that these rate differences reflect cost differences (Tr. 236).

4 One look at the complex Periodicals rate structure shows just how cost-based it
5 is. As the Commission knows, there are a number of piece rates reflecting processing
6 cost differences as part of a piece/pound structure that seeks to recoup both piece-
7 related and pound-related costs. The zoned advertising pound rate is based on
8 distance-related costs, and there is a modest sack/pallet differential as well as a
9 barcode discount. Witness Mitchell agreed that at least most of the elements of
10 Periodicals rates are cost based, to varying degrees Tr. 938-46 and 1148-50. I
11 understand that there is some cost averaging in the Periodicals rate, just as there is in
12 any broadly applicable rate. Even the complainants are willing to accept some
13 averaging, as shown by witness Stralberg's support for a cost-averaged bar code
14 discount (Tr. 225).

15 One might conclude from the vigorous attack on Periodicals rates as not "cost
16 based" that they lag behind other postal rates in this regard. But witness Mitchell also
17 contended that First-Class rates are not cost based (Tr. 935) and that Standard rates
18 are not cost based (Tr. 936). He wouldn't commit on parcel post (Tr. 937). Certainly,
19 neither First-Class nor Standard rates are zoned by weight (although Standard rates do
20 reflect drop ship discounts). In addition, even though Periodicals rates appear to be at
21 least as cost-based as other rates, Periodicals rates are supposed to reflect content,
22 which is not a cost consideration. Deviation from pure cost-based rates is therefore to
be expected. Witness Mitchell said he has "no personal problem" with a rate for a 100%

[C2004-1]

1 editorial Periodical that is below cost or with the "price signal" that sends (Tr. 1150-52).
I don't know why he should be so concerned with cost averaging as a way to preserve a
3 broad and diverse Periodicals class.

4 I said earlier that American Business Media and I are not opposed to serious
5 study and consideration of measured changes that are likely to produce lower Postal
6 Service processing costs without imposing undue hardship upon a segment of the
7 Periodicals class. Doing so, however, it seems to me, requires simultaneous
8 consideration of up-to-date Postal Service processing costs, projections of changes in
9 those costs in the short and intermediate term future and the rate structure, along with
10 an analysis of the likely impact of such changes on all types of Periodicals mailers.
11 Perhaps that was what witness Mitchell was referring to when he made a presentation
in which he contended that changes in Periodicals rate design could not be made by the
13 Commission and that the Postal Service must do studies to support the changes (Tr.
14 902).

4 The picture looks very different to the small publishers and printers who even the
5 complainants admit would have to change (if they can) to avoid punishing rate
6 increases for publishers and loss of business for printers. Efforts are underway and
7 should be continued to encourage smaller publishers and printers to engage in cost-
8 saving practices, if they can. I certainly hope that with the latest announcements from
9 Fairrington and Quebecor World discussed by witness McGarvy, co-mailing and co-
10 palletization will be available to and used by many more Periodical mailers to reduce
11 their and the Postal Service's costs.

 No rate change is necessary to produce this result. I agree with witness Schick
13 (Tr. 430 and 504) that the co-mail incentives today are adequate, for those that are able
14 to participate. We seem to agree that for most periodicals, the drop ship incentives are
15 also adequate, since he testified that Quad/Graphics can drop ship down to and
16 possibly below 15% advertising content (Tr. 436 and 525) despite the flat editorial rate.
17 Drop ship incentives today are such that, according to witness Mitchell (Tr. 976), 69.2%
18 of all Time Warner pieces are entered at either the DSCF or the DDU. For TV Guide,
19 the percentage is a remarkable 89.6%, for Newsweek 73.18%, for Conde Nast 67.44%,
20 and for Readers Digest 65.05%.

21 My concern is for the weeklies, the very small publications, the small printers with
22 relatively few publications and others that cannot turn a switch or run a program to
23 change their mailing characteristics or the way that they prepare mail. Witness Schick

1 recognized that, even with all of the resources of Quad/Graphics and its admirable
2 history of co-mailing, his clients have valid reasons for not being able to co-mail,
3 including daily or weekly production schedules that would be difficult to adjust or
4 expand, differing trim sizes, printed polywrap and multiple insertions (Tr. 414), and he
5 added that publications or versions with fewer than 1,500 pieces cannot be co-mailed
6 as a practical matter (Tr. 448). He repeated (Tr. 425) that, even with the multiple and
7 sophisticated co-mail pools run by Quad/Graphics, weekly publications in co-mail pools
8 would risk missing critical entry times.

9 In addition, publications in a co-mailing program such as that at Quad/Graphics
10 cannot at the last minute delay their printing to accommodate a late-breaking story or a
11 lucrative, last-minute advertisement without incurring huge costs for re-running the co-
12 mail software (Tr. 418), even though there are, according to witness Schick (Tr. Tr.
13 516), publications that believe that they must do so. Business-to-business publications,
14 even many monthlies, are time sensitive news publications, and they cannot afford to
15 wait an entire month to cover a late-breaking story in the industry or profession that they
16 cover.

17 I understand from the Quebecor World press release that it may be able to
18 overcome that problem. I hope so. But that does not mean that publishers that now
19 print at other printers can simply move their work to Quebecor World (or
20 Quad/Graphics) in order to take advantage of co-mailing, assuming that the other
21 problems, such as with weeklies, can be overcome. The typical printing contract is for a
22 3-5 year duration (Tr. 509), according to witness Schick and my own experience, so
23 even if a publisher wanted to make the move, and even if that publisher's periodical(s)

1 could be co-mailed, and even of the publisher was one whose business was desired,
and even if the publisher thought that the new, large printer would provide all of the
3 assistance that a smaller and perhaps closer printer could provide, it could still take
4 years to make the change. And witness Schick agreed (Tr. 509) that when a publisher
5 "has to pull up stakes in one place and move, depending on the amount of work it is and
6 the complexity, that's a big deal for them too. . . ."

7 Where I disagree with Mr. Schick is with his view that entry into the co-mail
8 business is relatively simple and inexpensive and that, as he said, any printer with a 4-
9 pocket Sitma can co-mail (Tr. 471-72). I suppose that, taken literally, it's a true
10 statement that even a printer printing four small publications a month can run them on
11 its 4-pocket Sitma and co-mail, but I'm sure that Mr. Schick would agree that it would
not and could not do so as a practical matter. For one thing, they would all have to print
13 at roughly the same time of the month (unless some agreed to sit around a couple of
14 weeks). For another, the ability to make four 20,000 circulation publications look for
15 postal purposes like one 80,000 publication is unlikely to lead to substantial
16 improvement in the ability to avoid sacks and the worst of the proposed rates.

17 Co-mailing takes volume. It's no accident that nine out of Quad/Graphics' ten co-
18 mail pools per month contain one participant with at least 100,000 copies and that eight
19 of those ten have a participant with at least 250,000 copies (Tr. 391). Of the 105 titles
20 that participate in the Quad/Graphics co-mail pools, only thirty have circulation less than
21 100,000 and more than half have circulation in excess of 200,000. Numbers like that
22 are impossible for shorter-run printers. I would also point out that, in contrast to the

1 theoretical 4-pocket Sitma co-mailer, Quad/Graphics' primary co-mailers contain 24
pockets (Tr. 472), and Quebecor World plans to install 30-pocket co-mailers.

3 Even assuming that a printer has sufficient volume of eligible material for co-
4 mailing, that printer must have both the time and the financial resources to commence
5 co-mailing. According to witness Schick, it would take about twelve to eighteen months
6 to install co-mail equipment and software (Tr. 440), and to get started with a 24-pocket
7 co-mailer would cost from \$500,000 to \$2,000,00 (Tr. 433-34). From what I have been
8 able to learn, these costs are likely to be at the upper end of this range: \$1,500,000 to
9 \$2,000,000. But the time frame suggested by Mr. Schick, while accurate if measuring
10 the time from ordering a machine to making it operable, fails to take into account the
11 time it would take for a new entrant to study the issue and obtain both customer and
investment commitments. These steps could take about a year.

13 In addition, consideration must be given to the large amount of floor space that
14 must be devoted not only to the machine itself but also to the staging space needed
15 both before and after co-mailing. Many printers handling short-run titles have limited
16 space now, and some are land locked. Even if additional floor space can be obtained,
17 the time and money necessary to do so must be added into the equation.

18 Despite these threshold impediments, publishers of shorter run publications are
19 moving in the direction that the complainants wish to "encourage" with rate carrots and
20 sticks. VNU began co-mailing nine of its titles this summer, and our experience,
21 combined with comments to me by several printers, indicate that we can expect to see
22 gross postage savings of about 9% to 15%, with the added front-end costs eroding

[C2004-1

Tr. 6/ 1701

1 around half of that number. For our titles for a couple of months, the net postage saving
has been about 4.5%. I expect that number to improve over time.

3 To me, the bottom line is that more co-palletizing and more co-mailing can be
4 done, is being done and will be done. It takes no rate design change to encourage
5 mailers to avoid the costs and damage of loading their publications into many small
6 sacks or to encourage the nation's larger publication printers to move forward in this
7 area.

C2004-1

American Business Media

**Nicholas Cavnar
(ABM-T-1)**

[C2004-1

Tr. 6/] 1721

Postal Rate Commission
Submitted 9/9/2004 3:42 pm
Filing ID: 41668
Accepted 9/9/2004
ABM-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF NICK CAVNAR
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

- 1 My name is Nick Cavnar, and I am appearing on behalf of American Business
2 Media. American Business Media members publish approximately 1,500 business-to-
3 business and professional periodicals and pay approximately \$300,000,000 per year to
4 do so. Most also operate websites associated with their publications, and many publish
5 newsletters, operate trade shows and offer data products and services.

1 Autobiographical sketch

2 I have worked in magazine publishing for more than 30 years, starting in 1973 as
3 an editor for a small non-profit periodical in Ann Arbor, MI. Since 1986, my career has
4 focused on circulation management for business magazines, and I am currently Vice
5 President of Circulation for Hanley Wood, LLC, of Washington, DC. My circulation
6 career has included jobs with some of the largest business-to-business publishers in the
7 country, including Crain Communications, International Thomson, Cahnerns Publishing
8 (now Reed Business Media), Primedia Business Media, and now Hanley Wood. In
9 these positions, I have worked closely with 180 magazines, ranging from a weekly
10 consumer publication with 200,000 subscribers to highly-targeted business magazines
11 serving less than 15,000.

 My area of expertise is circulation development and business strategy, and I do
13 not pretend to be a specialist in distribution. However, I have been actively involved in
14 postal issues for a number of years, serving on the American Business Media
15 Government Affairs and Postal Committees since 1996, and serving on the USPS
16 Mailers Technical Advisory Committee for two years from 1998 to 2000.

17 Co-palletizing

18 Co-palletization and co-mailing, as the complainants suggest, is increasingly
19 enabling smaller circulation publications to move from sacks to pallets, but it is not and
20 will not be available to many periodicals for a number of reasons.

21 I have been closely involved with co-palletizing programs for smaller circulation
22 magazines. I participated in a committee that worked with the Postal Service in 2003 to
3 develop the trial co-palletization discount of \$.007 per copy. My company then became

1 the first publisher to utilize a co-palletization program introduced in June 2003 by our
2 printer, RR Donnelly, at their Bolingbrook IL facility. Hanley Wood mails twelve
3 magazines as periodicals, and all twelve are now co-palletized in Bolingbrook and then
4 shipped for direct entry at points around the country. We are able to co-palletize even
5 our smallest periodical, a magazine for swimming pool builders that mails only 17,000
6 copies.

7 For our magazines that otherwise would mail almost completely in sacks, with a
8 single entry point, we have seen direct postage savings in the range of fifteen percent.
9 Hanley Wood's net savings from the program are substantially less, of course, since we
10 must also pay for the cost of co-palletization and shipping. Currently, we net only a one
11 percent savings, based on the cost of single entry postage. We expect that as more
12 publications enter the co-palletization pool at Donnelley and as more co-palletization
13 and co-mail operations are started, as is happening, both competition and declining
14 administrative costs will increase our net savings. Future rate increases, with or without
15 rate design changes, should do the same.

16 Our commitment to co-palletization goes beyond immediate postage savings,
17 however. We recognize that making periodical mail more efficient for the Postal Service
18 can help to contain our rates long term by driving cost out of the system. We
19 understand that sacks are a cost issue, and we have in fact achieved a dramatic
20 reduction in the use of sack. For example, our magazine The Concrete Producer, which
21 previously sent its 20,000 copies in 445 sacks, used only 8 sacks in its most recent
22 mailing. A recent co-palletization pool at Donnelly reduced sack usage from 2,806, if
3 each magazine had been mailed individually, to only 79.

1 Based on our own success with co-palletization, Hanley Wood is actively
2 encouraging other business magazine publishers to work with their printers to expand
3 these programs. I presented a seminar on co-palletization for the American Business
4 Media in January 2004, and will be speaking on the subject at the National Postal
5 Forum here in Washington on September 21. To judge by interrogatories recently
6 directed to American Business Media, it even appears that my efforts have been
7 noticed—appreciatively, I hope—by the complainants.

8 Precisely because I am speaking with many other publishers on this subject,
9 however, I am very aware that not all periodicals can be palletized, at least today.
10 Other American Business Media witnesses have explained, as has the complainants'
11 witness Schick, that publication frequency, trim size, inserts, and circulation size either
12 alone or in combination can preclude certain publications from participation in co-
13 mailing or co-palletization. In my own discussions, I have learned that some publishers
14 experience substantial service delays with co-palletization and drop shipping, compared
15 to mailing in sacks. This has not been a great problem for Hanley Wood, but most of
16 our magazines are monthlies and bi-monthlies that are not highly time-sensitive. I have
17 worked with time-sensitive magazines at other companies, and I can appreciate that a
18 single day's difference in delivery time can be critical in retaining subscribers and
19 advertisers.

20 Even if an individual magazine may be well suited for co-palletization, not all
21 magazine printers can offer their clients this service. Hanley Wood is fortunate to work
22 with one of the nation's largest printing and distribution companies. RR Donnelley
3 already owned facilities and equipment that could be adapted to create a co-

1 palletization line. But many printers do not have the volume of periodicals, or the
2 equipment and floor space, to create a similar operation.

3 For the foreseeable future, and especially if the Postal Service does not develop
4 a container than can replace sacks, there will be publications that have no choice but to
5 continue mailing mail in sacks—either because alternatives are precluded by their
6 mailing characteristics and delivery requirements, or because they do not have the
7 service available to them. If Periodical rates are restructured as proposed by the
8 complainants, these publications will be heavily penalized. Ultimately, that will affect not
9 only the publishers, but also their subscribers, especially those who become most costly
10 to serve.

11

19 Finally, in this regard, I would like to respond to allegations that, under the
20 present rate schedule, larger publications subsidize smaller ones. I cannot deny that
21 different publications pay different percentages of "their" attributable costs, and I think
22 that we all agree that 100% editorial publications pay less than attributable costs, as do
 } no doubt many others with the mark-up as low as it has been in recent years. But I do

1 not accept that publications paying higher mark-ups are necessarily subsidizing those
2 with lower or no markups. It is possible that the publications with lower than average
3 mark ups are being "subsidized" by mailers in other classes. In other words, it may be
4 that the present per copy rates of lower than 18 cents now paid by, among others, Time,
5 Entertainment Weekly, Newsweek and TV Guide would not be lower but for the rate
6 preferences for the publications that are their target in this case. It is equally plausible
7 that, but for those preferences, the lowest Periodicals rates would be the same, but the
8 class mark up over attributable costs would have been maintained at a somewhat
9 higher level by virtue of greater revenues from the allegedly high-cost publications
10 targeted here.

11 In other words, assume that in the past few cases the Commission had decided
12 that rates for small circulation publications must be even higher because of the costs
13 that they impose on the postal system, as the complainants allege here. It is possible
14 that the Commission could have assigned the additional revenues not to a reduction in
15 the rates paid by the complainants and others similarly situated but to payment of
16 institutional costs in order to increase the cost coverage closer to its historic level.

3 Driving Costs from the System

4 The linchpin of the complainants' case, other than the large rate decreases they
5 would enjoy, is that rates must be changed in order to change mailers' "behavior," and
6 that such behavior changes will "drive costs from the system." In other words, if mailers
7 can only be given incentives to prepare their mail differently and increase the level of
8 worksharing, postal service processing costs will decline, and the seemingly
9 inexplicable upward pressure on rates in the past will ameliorate or reverse.

10 In the words of the Complaint that initiated this proceeding (pages 4-5):

11 For the past seventeen years, Periodicals mail processing costs have
12 been rising and Periodicals mail processing productivity has been falling,
13 despite extensive efforts by both the Postal Service and mailers to bring
14 about more efficient Periodicals handling.

15 This theme was repeated by the complainants' witnesses. For example, witness
16 Mitchell agreed (Tr. 912) that for the past twenty or so years, mailers took steps
17 that should have reduced Postal Service processing costs and (Tr. 1029-30) that:

18 inordinate increases in the attributed costs and rates of Periodicals
19 mail have occurred since the early 1990s *despite* significantly
20 increased use of pallets, increased dropshipping and increased
21 worksharing of other types by Periodicals mailers during that
22 period.

23 My question is, if the significant changes made by *all segments of the*
24 Periodicals industry in the past twenty years did not have the expected effect of
25 "driving costs out of the system," why should we believe that similar changes in
26 the next few years will have that effect? There is an adage that is often, although
27 I think incorrectly, attributed to Sigmund Freud that goes "insanity is doing the

1 same thing over again and expecting different results." I do not believe that the
2 complainants are insane, but when asked to confirm the possibility that the effort
3 to develop new price signals and to respond to them might have little effect on
4 Postal Service costs, witness Mitchell would not even confirm that possibility (Tr.
5 1106). Interestingly, that question was asked by the Postal Service itself, which
6 leads me to believe that it might doubt that forcing mailers to change the way
7 they present their mail (if they can) will result in significant cost savings.

8 I believe it was Time Warner witness Stralberg himself who coined the
9 phrase "automation refugees" to explain why processing costs did not decline as
10 they should have with automation (Tr. 298). As I understand it, the basis for the
11 automation refugee hypothesis is that the Postal Service has difficulty reducing
12 costs as activity in specific functions declines, possibly because personnel that
13 become excess are reassigned to functions where additional labor is not
14 necessarily needed. I have seen nothing that convinces me that that the same
15 phenomenon will not continue to exist, for whatever reason. Of course, if my
16 fears are correct, then rates that assume cost reductions that do not exist will
17 soon have to be raised as cost coverage drops into the negative zone, leaving
18 behind those publishers, who may become former publishers, who were unable
19 to respond to the price signals and faced rate increases of 30%, 50% and even
20 80%.

21

1 Conclusion

2 American Business Media does not have a final position at this stage of
3 the proceeding. Nevertheless, certain conclusions will not change as the record
4 develops further. One is that, notwithstanding witness Gordon's discussion of
5 technology changes, print publications—ours and the complainants'—are not
6 anachronisms, and television and the Internet are not now and will not in the
7 foreseeable future be viable substitutes for print publications. If postage rates
8 cause there to be fewer Periodicals, or cause some Periodicals to reduce
9 circulation in distant or rural areas as a result of rate design, the nation will be
10 worse off for it. Another immutable conclusion is that even though some
11 publications can change the way they present mail to make it less costly for the
12 Postal Service to handle, those changes are underway and increasing today,

18 At this point, therefore, American Business Media's position is that it
19 cannot support and must oppose significant structural changes likely to increase
20 rates for many Periodicals without:

- 21 1. An alternative to sacks for those that cannot palletize.
22 2. Protection for mailers that cannot change.
3 3. Better information on the effect of Delivery Point Sequencing,
4 Automated Package Processing and other upcoming
25 changes.

[C2004-1

Tr. 6/]

1746

- 1
 - 3
 - 4
 - 5
4. A convincing case that the Postal Service can actually capture theoretical savings.
 5. Reasonable notice and phasing of major changes (just as Congress phased the major changes required in the Postal Reorganization Act).

C2004-1

American Business Media

**Joyce McGarvy
(ABM-T-3)**

[C2004-1

Tr. 6/ 1775

ABM-T-3

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF JOYCE MCGARVY
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

1 My name is Joyce McGarvy, and I am submitting this testimony on behalf of
2 American Business Media in order to comment on the rate and restructuring proposals
3 that have been advanced in this proceeding by Time Warner, Newsweek, Readers
4 Digest, TV Guide and Conde Nast (which I will at times collectively refer to as "Time
5 Warner" to make this testimony more readable).

6 As a general matter, I agree that Periodicals mailers should take whatever steps
7 are reasonably possible to reduce their own postage costs as well as the Postal
8 Service's costs (that are, after all, passed through to mailers).

3 **Autobiographical Sketch**

4 My present position is Corporate Distribution Director for Crain Communications,
5 where I have been employed for twenty-five years. Crain Communications is primarily a
6 publishing company with thirty titles providing vital news and information to industry
7 leaders and consumers. Each newspaper or magazine has become required reading
8 and an authoritative source in its own sector of business, trade and consumer market.
9 In my present position, which I have held for nineteen years, my responsibilities include
10 managing the distribution of all of Crain's weekly, bi-weekly and monthly publications, a
11 job that includes managing the company's postal affairs.

 During my years at Crain, I have been very active in the industry. I am presently
13 the Vice-Chair of the Mailers Technical Advisory Committee (MTAC) and President of
14 the Red-Tag News Publications Association. I have served on MTAC for approximately
15 nine years, during which time I served on numerous committees and work groups,
16 including serving as Industry Co-chair for the Electronic Publication Watch and the
17 Electronic Mail Improvement Reporting (eMIR) work groups. I am the Industry Co-chair
18 for the Periodicals Operations Advisory Committee (POAC), and I serve as Industry Co-
19 chair for the Postal Service's Periodicals National Focus Group and the Great/Lakes
20 area, and I am a member of the Periodicals Advisory Group.

21 I have a degree in Transportation from the College of Advanced Traffic, Chicago,
22 IL, a Bachelor's Degree in Business Administration from Cleary College, and a Master's
23 of Science in Administration Degree from Central Michigan University.

[C2004-1

Tr. 6/ 1777

22 From the response of the Postal Service to the Complaint and comments of
Postal Service officials in the past few years, it appears that it intends to move forward

1 with certain rate design changes, but to do so with caution in order to make certain that
its mission to "bind the nation together" is not unduly impeded by the unintended
3 consequences of a massive, one-time shift in rate design. Although "ready, fire, aim"
4 may be a valid and profitable corporate philosophy for Quad/Graphics, according to
5 witness Schick (Tr. 442), I do not think that it is an appropriate credo for the Postal
6 Service.

7 **The Industry is Changing**

8 Witness Schick remarked more than once during the hearing that the present
9 rate schedule provides ample incentives for co-mailing (Tr. 403, 504), and he also
10 testified that Quad/Graphics is able under the present rates to justify drop-shipping of
11 Periodicals with editorial content of 15% or even less. (Tr.436) He is absolutely correct.

That is why Crain has five of its small circulation publications co-palletized by
13 Quad/Graphics and nine of its small circulation publications co-palletized by RR
14 Donnelley. All of these co-palletized publications are drop shipped. The present
15 incentives are also why other American Business Media members co-palletize and co-
16 mail and why some of the complainants' publications are co-palletized or co-mailed.

17 Time Warner submitted a number of interrogatories to American Business Media,
18 asking American Business Media to confirm that it has been encouraging its members
19 to investigate co-palletizing and co-mailing and that they are doing so. Combined with
20 the educational efforts of others, including the complainants themselves, printers and
21 other vendors, those efforts now are paying off. I understand that in the past couple of
22 years, monthly publications of American Business Media members, and I would
assume, smaller circulation publications of non-members, have begun to be co-mailed

1 or co-palletized. I have seen full page ads from Publishers Press, which specializes in
shorter run publications, touting its co-palletizing capabilities, and it is well-known in the
3 industry that, last month, Quebecor World announced that it is moving forward with the
4 purchase of two 30-pocket co-mailers and will actively market that service to short-run
5 publications. Even more recently, Fairrington, a transportation services company with
6 substantial involvement in the Periodicals industry, announced that it is moving forward
7 with a consolidation, co-palletization and transportation initiative that, it is hoped, will
8 eventually allow publishers who use printers that cannot co-palletize to have their mail
9 co-palletized and drop-shipped.

10 I know very well, and have worked closely with, key people at Quebecor World
11 and Fairrington and am confident that they would not be investing time, money and
management attention to co-palletizing and co-mailing endeavors based upon
13 speculation that the postal rate structure will change dramatically. Rather, I am certain,
14 or as certain as I can be without being in their board rooms, that they—like
15 Quad/Graphics and Publishers Press—understand that the present postal rates,
16 combined with mailers' desire to get out of sacks whenever they can, have produced an
17 environment in which Periodical mailers are changing and will continue to change. We
18 do not like excessive sack use any more than the printers do, or the Postal Service
19 does, because sacking mail imposes costs on printers that are passed on to us.

20 I know that I cannot predict, and I do not suppose that anyone can, whether the
21 changed mailing patterns that are certain to occur in the next couple of years without a
22 massive rate design shift will move enough mail so that the remaining high-cost mail will
impose a minimal and acceptable burden on the subclass. That is certainly a

[C2004-1

Tr. 6/ 1780

1 possibility, however. When Crain co-palletized fourteen of its publications, we were
able to eliminate 900,000 sacks a year from the mail. Multiply that number by the
3 hundreds or thousands of Periodicals that will begin to comail and co-palletize as
4 Quebecor World, Fairrington and others ramp up their operations, and it is apparent that
5 a major shift has just begun.

4 Crain is a relatively large and, I submit, sophisticated publisher of short-run
5 publications numbering around 30, with one larger publication (*Autoweek*). It can afford
6 to have a distribution department of the type I head, and it is large enough to be an
7 attractive client for large and sophisticated printers. As a result, we can find a printer,
8 such as Quad/Graphics and RR Donnelley, that will co-palletize our publications, and
9 we have the knowledge, the software access and, frankly, the money that would permit
10 us to at least attempt to weigh rate versus service issues and to make the horrendously
11 complex sacking, palletizing, bundling and drop shipping decisions that would be
12 necessary for every mailing under the proposed rate structure.

3 There are other reasons as well why co-palletizing and co-mailing may not be
4 available to, especially, small publishers. There is no escaping the fact that a co-pallet
5 or co-mail program needs a threshold volume to be efficient. It is no accident that
6 nearly all of Quad/Graphics' co-mail pools have at least one participant with more than
7 100,000 pieces in the pool (Tr. 391), or why witness Schick would not confirm that its
8 small pool is an economic (as opposed to promotional) success (Tr. Tr. 496-97). Small
9 printers of short-run publications may simply not have the volumes necessary create
10 efficient pools, especially for publishers of tabloids, which cannot be co-mailed with
11 standard trim size Periodicals (Tr. 449).

 Although Crain does not publish anything with circulations in the thousands, as
13 opposed to the tens of thousands, there are many out there who are not represented in
14 this case and who, due to their size, are not candidates for co- anything and are no
15 doubt stuck with small sacks. They, too, must be considered, especially because, if I
16 am correct that the industry is changing, they will not impose an undue burden on the
17 remainder of the class.

18 Finally, the country's major printers, the printers with the volume and the capital
19 to enter the co-palletizing and co-mailing business, are generally not interested in
20 printing one or two short-run publications, if that's all the publisher has. Even if they
21 were interested, they would likely not provide the kind of assistance and "hand holding"
22 that some small publishers need, and Time Warner's witnesses agreed (Tr. 509
(Schick) and 1002 (Mitchell)) that switching printers is not something to be taken lightly.

1 Even if a publisher were able to overcome these obstacles and switch to a printer that is
2 able to co-mail or co-palletize, there is likely to be a delay of up to several years in order
3 to avoid breaching a printing contract that, typically, would be of 3-5 year duration (Tr.
4 509).

5 **The Need for a "Measured Pace"**

6 The above considerations, as well as those addressed by the other American
7 Business Media witnesses, require that if any fundamental changes are going to be
8 made to the Periodicals rate structure, they be made with adequate notice and at the
9 "measured pace" witness Mitchell claims to have adopted (Tr. 803) but in my opinion
10 did not (see Tr. 923).

11 Before he testified in this case, Mitchell understood and explained that changes
12 such as those he now proposes should not be imposed upon an unprepared Postal
13 Service by the Postal Rate Commission. In a May 8, 2003 presentation to the Envelope
14 Manufacturers Association, he argued that Postal Service rates are in need of
15 fundamental change to eliminate averaging and properly reflect costs, yet he also
16 pronounced (at Tr. 902) that "USPS must do studies to support changes" of the type he
17 sought then and seeks now. He admitted during cross-examination (Tr. 1146-47) that
18 he knows of no such studies undertaken since he asserted that studies are needed. In
19 addition, in that same presentation, Mitchell explained that "USPS must play the
20 leadership role" and that "[t]he changes cannot be made by the Postal Rate
21 Commission." He does not explain what has happened in the past year to justify
22 changes ordered by the Commission in the absence of Postal Service "leadership" and
the once-necessary studies.

1 I would like to point out that today's rates are not as unfair and insulated from
cost considerations as Time Warner suggests. I note that the large circulation
3 magazines published by Time Inc. already pay much lower postage than we pay. For
4 example, for their main files, Time now pays 17.67 cents per copy, Sports Illustrated
5 pays 18.73 cents per copy, People pays 19.12 cents per copy and Entertainment Week
6 pays 17.2 cents per copy (Tr. 116). The Time Warner proposal would reduce these per
7 copy charges by roughly 2 to 3 cents (Tr. 116). In contrast, we have one publication
8 mailed by itself (Advertising Age's Creativity) that weighs roughly the same as these
9 Time Warner publications—.35 ounces for ours versus .32 ounces, .39 ounces, .36
10 ounces and .27 ounces for Time Warner's (Tr. 116). Our editorial content is 50%,
11 compared with their average of 55.5%. Our per-copy postage is now around 30.14
cents, or 66% more than the 18.18 cents unweighted average Time Warner per copy
13 postage for these four publications. The Time Warner proposed rates would increase
14 the postage for Advertising Age's Creativity to 44.47 cents per copy, which is 184%
15 more than the 15.64 average postage at the proposed rates for the four Time Warner
16 publications (Tr. 116).

17 I am not complaining about the present, 66% difference between what they pay
18 and what we pay for a Periodical of approximately the same weight and only slightly
19 higher advertising content. I know that Time Warner palletizes nearly all of its copies of
20 these publications and rarely mails beyond zones 1 and 2. By contrast, we can now
21 palletize only 21% of Creativity, which has a mailed circulation of 31,320, and we do
22 not drop ship it. I point out these numbers in order to show with real life examples that
the current rates do in fact to a very substantial extent reflect differences in Postal

[C2004-1]

1 Service processing costs and reflect as well my general understanding that, over the
past ten or fifteen years, smaller circulation publications have faced larger rate
3 increases than the mass circulation magazines. It would be a mistake to believe that
4 Crain Communications does not see the present difference of about 12 cents per copy,
5 or \$45,000 a year for this one, small Periodical, as a strong price signal. If we could
6 mail like Time does and pay the postage Time pays, we would.

7 Conclusion

8

9

10

11

13

14

15

16

17

18

19

20

21

22

6 It would be far preferable, I submit, for the Postal Rate Commission at the
7 conclusion of this case to encourage the Postal Service to investigate and study all of
8 the issues raised in this proceeding, and to propose in the next case any rate structure
9 changes, with associated rates, that it believes will both encourage mailers to continue
10 the move away from sacks and give some degree of protection to those mailers who,
11 due to their size, their business models or other factors would not be able to avoid large,
crippling increases if the proposals did not account for their existence.

13 I understand that the rapid increase in Periodical processing costs that
14 characterized much of the past twenty years is finally leveling off, see Tr. 192. I fully
15 expect that the combination of greater mailer awareness and the entry of new co-
16 mailing and co-palletizing providers is just the beginning of a major trend in that
17 direction that will have a very significant impact on processing costs of the type that
18 Time Warner says it is seeking through a carrot and stick change in rate design. I've
19 said it before: mailers don't like sacks. Give us a reasonable way to get out of them, or
20 to reduce the sack count by increasing the sack size with assurance that service will not
21 be compromised, and we will. It looks like we are getting there, and doing it without
22 inflicting harm on countless small and under-represented publications that will become
23 the collateral damage of the Time Warner proposal.

C2004-1

McGraw-Hill Companies, Inc., The

**David Schaefer
(MH-T-1)**

Tr. 6/ 1916

MH-T-1

RECEIVED

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

NOV -4 A 11: 27
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

COMPLAINT OF TIME WARNER INC. et al.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT TESTIMONY OF
DAVID SCHAEFER
ON BEHALF OF
THE MCGRAW-HILL COMPANIES, INC.

September 9, 2004

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

**DIRECT TESTIMONY OF DAVID SCHAEFER
ON BEHALF OF THE MCGRAW-HILL COMPANIES, INC.**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

I. Autobiographical Sketch

My name is David W. Schaefer. I am the General Manager, Logistics and Postal Affairs, for The McGraw-Hill Companies, a position that I have held since July 1998. In this position I am responsible for a team of twelve domestic and international employees and oversee the worldwide logistics operations for McGraw-Hill's publications. I negotiate a variety of corporate-wide global transportation contracts for the company, including express couriers and international mail services. I serve as the primary liaison for McGraw-Hill to the United States Postal Service and represent the company on the Periodical Operations Advisory Committee (POAC) and the Periodicals Advisory Group (PAG). I also serve as a member of the Mailers Technical Advisory Committee (MTAC) representing the interests of American Business Media, of which McGraw-Hill is a member. Prior to joining The McGraw-Hill Companies, I was employed by Primedia where I served as Associate Circulation Director, Distribution. During various periods of my five-year tenure at Primedia, I had responsibility for distribution, customer service and fulfillment for Primedia's consumer magazine division. I began my career as a Field Auditor for the Audit Bureau of Circulations in 1991. I received a Bachelor of Arts Degree in Economics from the State University of New York, Stony Brook in 1990.

6 **III. McGraw-Hill's Interest in This Proceeding**

7

8 McGraw-Hill publishes a wide range of Periodicals that in many ways mirror the
9 characteristics of the Periodicals class as a whole. Its publications include magazines,
10 newsletters, newspapers, and loose leaf periodicals in the fields of business, finance,
11 healthcare, and construction.¹ McGraw-Hill publishes a total of 84 Periodicals, including
12 19 monthlies, 10 weeklies, 2 bi-weeklies and 53 daily bulletins.² These publications
13 vary widely in terms of mailed circulation, and thus in their ability to use pallets and
 drop-ship highly presorted mail pieces.

15 McGraw-Hill's publications range from the nearly one million subscribers to
16 *Business Week*, which is more than 98% palletized and mostly sorted to the carrier-
17 route level and drop-shipped to the destination-SCF, to the three loyal subscribers to
18 *Dodge Daily Bulletin Western Missouri*. McGraw-Hill's Periodicals likewise vary widely
19 in terms of editorial percentage and weight, ranging from a 1-ounce, 100% editorial
20 publication (*The Outlook*) to a 7-ounce, 40% editorial publication (*Healthcare*
21 *Informatics*) to a 25-ounce, 50% editorial publication (*Architectural Record*). In view of
22 the diversity of its publications, McGraw-Hill is a member of both American Business

¹ McGraw-Hill is also a major publisher of educational and professional books, and owns and operates four TV stations, among other information and media products and services that it provides.

² McGraw-Hill's total Periodicals postage in 2003 was approximately \$17.5 million. We estimate that postage amounts to about 26% of the cost of manufacturing and distributing our Periodicals as a whole.

[C2004-1

Tr. 6/] 1923

1 Media and the Magazine Publishers of America, and has representatives on the boards
and key committees of both organizations.

3 McGraw-Hill is also using the new methods of electronic publishing to satisfy its
4 customers' desires for information as they wish to receive it. Many of McGraw-Hill's
5 publications provide editorial content on publically available websites, as well as on
6 websites accessible only to subscribers, or through electronic publications in formats
7 such as Adobe PDF and Zinio.

15 From the start of this proceeding, as in the MC95-1 reclassification case,
16 McGraw-Hill has been less concerned with the savings that it might realize overall under
17 the proposed rates than with the adverse impact of such rates on smaller publications.
18 Due largely to their lower circulation, smaller publications already bear a substantially
19 higher cost burden than larger-circulation publications, and would not likely be able to
20 avoid onerous rate increases by changing their mailing practices. Beyond the adverse
21 impact on most of McGraw-Hill's own publications (which must stand on their own
22 financially), we are concerned that the extensive de-averaging of costs and rates
proposed by Complainants would undermine maintenance of a broad, vibrant and

[C2004-1

Tr. 6/] 1925

1 diverse Periodicals class, and could bring into question its long-term viability. We
2 further believe that more efficient mailing practices can be fostered and rewarded as
3 appropriate through rate design changes that are more balanced and equitable than
4 those proposed by Complainants.

Witness

15
16 Mitchell illustrates in a chart that outside-county Periodicals rates, at a constant markup
17 index (which isolates the growth of attributed costs), have grown at rate considerably in
18 excess of inflation as measured by the CPI-U. He also notes that this took place over a
19 time when technological advances occurred, so in effect we have experienced *negative*
20 *technological productivity change*. While, as witness Mitchell states, "[b]y any measure,
21 the situation is troubling" (*id.* at 808), I suggest that the situation has been much more
22 "troubling" for smaller-circulation publications that lack presort density than it has for
23 large titles.

24 Chart A below was taken from the testimony of witness Mitchell and modified to
include some additional information. McGraw-Hill modeled postage increases for the
26 same period of time for several of its publications, including *Business Week*, a relatively

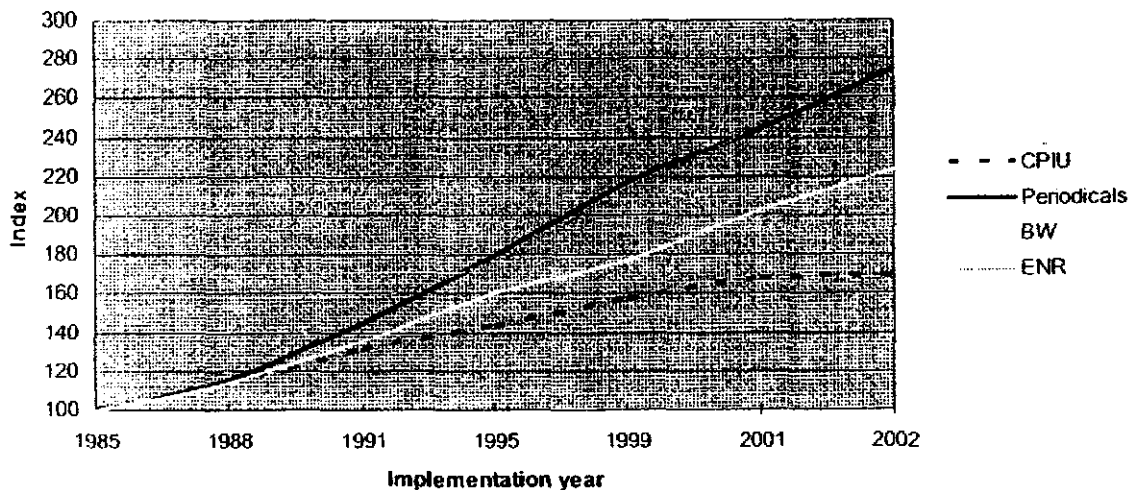
[C2004-1

Tr. 6/ 1926

1 high-circulation magazine (with nearly a million domestic mailed copies per issue) that is
 2 highly presorted, heavily palletized and extensively dropshipped, and *Engineering News*
 3 *Record*, a smaller-circulation magazine (approximately 74,000 domestic mailed copies
 4 per issue) that is less finely presorted, less extensively palletized, and origin-entered.
 5 Using their current mailing profiles, I estimated their increased postage for the period in
 6 question (holding constant a 24% markup, as did witness Mitchell, to highlight growth of
 7 attributable costs), with adjustments being made for changes in the rate structure over
 8 the period.

9 **Chart A**

Periodicals (constant markup index) vs CPIU



10
11

12 Chart A makes clear that the constant-markup rates for *Engineering News*
 13 *Record* exceed the CPI-U by approximately twice as much as do the corresponding
 14 rates for *Business Week*. This indicates that smaller-circulation publications like *ENR*,
 15 rather than large-circulation publications like those of Complainants, have borne the
 16 brunt of the costs attributed to Periodicals since 1985. Moreover, the rate differential

1 continues to grow at an alarming rate. Even more troubling, borrowing a phrase from
witness Mitchell, the actual situation could become worse than the picture. The rate
3 differential would widen significantly under the proposed rate structure, with *Business*
4 *Week* experiencing an 11% decrease in rates and *Engineering News Record* a 13%
5 increase. Even if *ENR* were able to take steps to mitigate some of the increase, as the
6 Complainants suggest, the rate disparity would still grow considerably.

7 It is hard to believe in this light that, as stated by witness Mitchell, the current
8 rates provide signals that are "hidden by excessive tempering." (Tr. 3/852). During the
9 time period analyzed, numerous rate design changes have been introduced that
10 primarily benefit high-volume/high-density mailers rather than relatively low-volume/low-
11 density mailers. These changes have included the introduction of destination-entry
pound rates, destination-entry discounts from the piece rates, a slower rate of increase
13 in low-zone pound rates, enlarged carrier route discounts, and the introduction of pallet
14 discounts, to name a few. Large-circulation Periodicals mailers, including
15 Complainants, have benefited from such rate design elements in minimizing the share
16 of Periodicals costs borne by them.

17 It is also instructive to compare the actual postage paid by relatively large and
18 small Periodicals mailers over the years. Chart B below is similar to Chart A except that
19 it reflects actual markups and postage paid. Chart C below is similar to Chart B except
20 that it includes all McGraw-Hill publications except its *Dodge* publications and *Standard*
21 *& Poor's* publications.

22

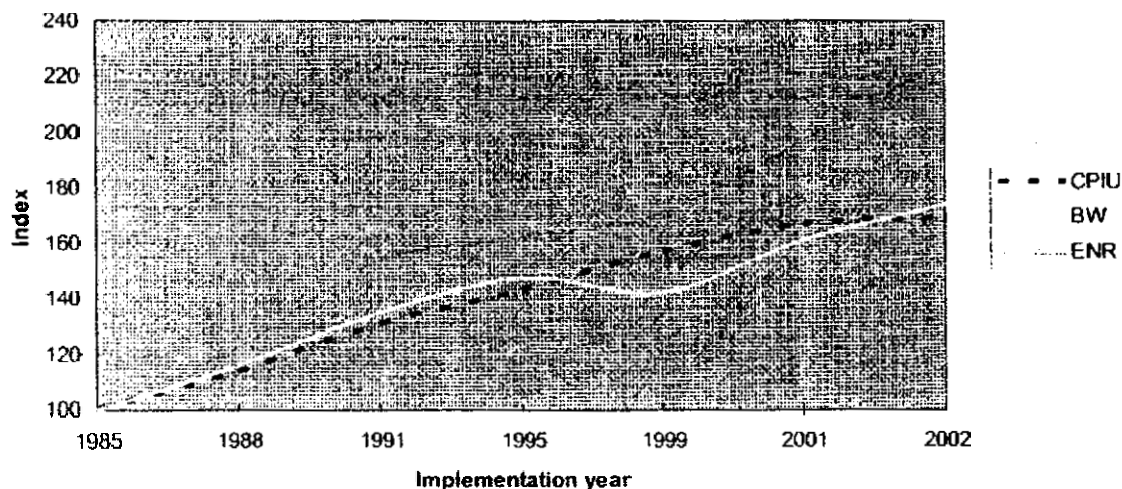
[C2004-1

Tr. 6/] 1928

1

Chart B

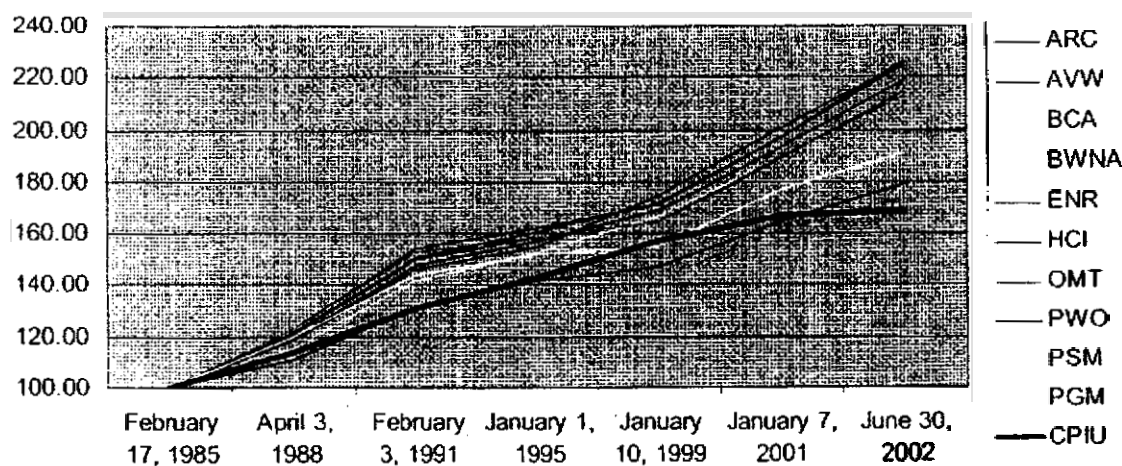
Periodicals (actual markup) vs CPIU



2

3

Chart C



5

6

Notably, while the average increase for regular-rate Periodicals during the period between January 1995 and January 1999 was 5%, many large publications apparently saw a *decrease* in postage during this period, as was the case with *Business Week*.

8

1 Further, by putting aside the artificial "constant 24% markup" adopted in witness
Mitchell's chart, Chart B above makes clear that the actual aggregate postage increases
3 incurred since 1985 by *Business Week* – and presumably other high-circulation
4 publications like those of Complainants – have *not* generally exceeded the CPI-U, while
5 smaller-circulation publications like *ENR* have incurred aggregate postage increases
6 nearly *double* the CPI-U. Indeed, the increase for at least some of Complainants'
7 publications appears to be well *below* the rate of inflation, and under the proposed
8 rates, their postage will have *decreased* over the past decade.³

9 In this light, the remedy advocated by Complainants – a radical de-averaging of
10 Periodicals rates that would provide an enormous windfall to a relatively few large-
11 circulation publications such as those of Complainants,⁴ even with no change in their
mailing practices, while exposing most smaller-circulation publications to corresponding
13 rate increases – seems wholly misaligned with the chronic problem of above-inflation
14 cost increases attributed to Periodicals mail that Complainants purport to address. It is
15 the smaller-circulation publications, not the large-circulation publications, that have
16 borne the brunt of those cost allocations. It therefore seems misplaced for
17 Complainants to seize upon those cost allocations as a reason to further increase the
18 cost burden borne by smaller-circulation publications.

³ For example, Time Warner publications *Time* and *Sports Illustrated* respectively paid postage per piece of 15.6 cents and 16.8 cents in 1995 (MC95-1, Tr. 29/13508), and currently pay 17.67 cents and 18.73 cents per piece, respectively. (Tr. 1/116). These increases, 13.3% and 11.5% respectively, are well below the aggregate rate of inflation for the period, which has amounted to approximately 23%. Moreover, under the proposed rates, *Time* and *Sports Illustrated* would respectively pay 15.3 cents and 15.4 cents per piece (*id.*) – lower postage than they paid in 1995.

⁴ Based on data in the record (Tr. 1/72-75, 112-126), it appears that under the proposed rates, aggregate annual postage savings would amount to approximately \$23.9 million for Time Warner publications, \$13.6 million for *TV Guide*, \$10.7 million for Conde Nast publications, \$6.7 million for *Reader's Digest* publications, and \$4.4 million for *News Week*.

1 To the contrary, it would seem in this light that the inordinate cost increases
attributed to Periodicals over the years is a reason *not* to de-average Periodicals rates,
3 or at least to proceed cautiously and incrementally in that regard. This is particularly so
4 to the extent that those cost increases may have been to a significant degree
5 *misallocated* to the Periodicals class – a possibility that has been acknowledged by
6 witness Mitchell in this proceeding (Tr. 3/1027, 1029-1031) and, I am informed, has
7 most strenuously been urged in the past by Time Warner.

8 Considering that possibility, as well as all of the rate design changes that have
9 occurred over the years, fostering increased worksharing (presortation, barcoding, and
10 drop-shipping) and palletization, I question whether the high cost increases attributed to
11 Periodicals as a whole are due primarily to inadequate price signals to Periodicals
mailers to modify their behavior. It seems at least as plausible that many smaller
13 publications simply lacked the circulation density (or practical opportunities to combine
14 their mail with that of other publications) in order to increase significantly their
15 worksharing and palletization.

16 At the very least, however, the sharp cost increases attributed to Periodicals mail
17 over the last twenty years despite a range of new rate incentives does indicate that
18 considerable caution is warranted before undertaking the radical rate design changes
19 proposed by Complainants. Prudence would seem to dictate a more incremental
20 approach.

21 The Postal Service, in its Answer to the Complaint filed in this proceeding, has
22 stated (at 21-23) that it is taking measured steps to foster a more efficient mail stream in
a manner designed to achieve consensus among the Periodicals class as a whole.

1 These steps include, for example, establishing experimental co-palletization discounts
in order to determine whether smaller Periodicals are in fact able to change their mailing
3 practices in meaningful ways. Proceeding cautiously in this regard will have at least two
4 major benefits. An incremental approach would lessen the otherwise harsh impact of
5 precipitous rate increases on many mailers that may not presently have the ability to
6 change their mailing practices significantly, and will allow those that can change, along
7 with their printers, the time to do so. Further, it will allow the Postal Service to evaluate
8 the feasibility of such changes and their effect on the efficiency of its operations.

9 It is critical to understand fully how rate design changes impact both mailers and
10 the efficiency of the mailstream. The rate de-averaging proposed by Complainants
11 could well lead to *inefficient* mail preparation practices, such as the movement of small
pallet volume to large sacks, with larger bundles prone to breakage. While witness
13 Mitchell states that "the use of sacks can in some circumstances be a low-cost, efficient
14 way of preparing and handling the mail" (Tr. 3/1011), this seems at odds with the
15 current thinking of the Postal Service. As recently as May of this year, Anita Bizzotto,
16 Chief Marketing Officer for the Postal Service, stated that a MTAC workgroup was being
17 considered to eliminate the use of sacks altogether.

18 The Commission should look to the Postal Service to take the lead if any major
19 rate design changes for Periodicals mail are to be considered fully. If some of
20 Complainants' assumptions in this proceeding were not borne out, the unintended and
21 counter-productive consequences of adopting their proposal could be considerable.
22 Too many publishers have too much at stake to take such a gamble.

1 V. **A Precipitous De-Averaging of Rates Is Unnecessary for Large Periodicals**
2 **and Would Be Unmanageable and Harmful for Many Smaller Periodicals.**

McGraw-Hill publishes a wide range of Periodicals, as discussed at the outset of
5 this testimony, and we know first hand the issues facing many types of publications.
6 McGraw-Hill actively pursues worksharing and palletization for each of its publications
7 to the extent feasible. Some publications, however, face considerable practical
8 obstacles in this regard. Simply raising the cost of postage for those titles that cannot
9 palletize and dropship will not cause the activity to take place.

10
11 A. **Periodicals Mailers Already Have an Array of**
12 **Effective Efficiency Incentives.**
13

14 Mailers already have significant incentives to prepare Periodicals mail on pallets,
15 rather than in sacks, to the extent feasible. These incentives extend well beyond the
many pallet and drop-ship discounts under the current Periodicals rate structure. Sacks
17 are expensive not only for the Postal Service but also for everyone else involved in the
18 process. In a printing plant it is much more labor intensive to sack Periodicals mail than
19 to palletize it. Sacks are also less efficient and more expensive than pallets for
20 transporting (drop-shipping) Periodicals mail in non-postal trailer trucks. If *Business*
21 *Week* were to direct its printers to prepare its print run largely in sacks, it would incur
22 significant additional printing and drop-shipping expenses.

23 Accordingly, McGraw-Hill and its printers have increased significantly their use of
24 pallets and reduced significantly their use of sacks for most of its publications. *Business*
25 *Week* and *Aviation Week* alone have eliminated over 1,000,000 sacks on an annual
basis over the course of the last four years. Complainants have likewise heeded the
27 existing incentives to palletize rather than sack their Periodicals mail to the extent

1 feasible. (See Tr. 1/116-120, 122-23, 125-26). Many McGraw-Hill publications have
sack minimums set high at 24 pieces and pallet minimums set low at 250 pounds, which
3 tends to minimize the number of sacks and maximize the number of pallets used. Apart
4 from reducing our postage bill, these practices have also helped us to avoid incremental
5 expenses from the printer and to lower non-postal transportation costs.

6 In undertaking to reduce sack usage in favor of pallets, McGraw-Hill engages in
7 co-palletization and co-mailing to the extent feasible. A number of our *Dodge* regional
8 publications are produced at Publishers Press and participate in its co-palletization
9 program. As a result, the vast majority of these short-run publications are nearly
10 completely palletized. We have also co-mailed publications though the use of selective
11 binding technology, resulting in both larger bundles and finer presortation.⁵

12 Late last August both Brown Printing and Fairrington Transportation announced
13 plans to commence co-palletization programs and associated drop-ship pools by early
14 next year. Further, Quebecor World announced in early August that it would invest in
15 co-mailing technology to be housed in a new facility in Chicago.⁶ While full details are
16 not yet available to us, we view these announcements as positive steps in creating
17 additional opportunities for Periodicals mailers to save postage through greater presort
18 density, palletization and drop-shipping. I note that these developments are occurring
19 under current postal rate incentives, and thus further call into question the need for the
20 type of rate structure proposed by Complainants.⁷

⁵ McGraw-Hill also makes use of drop-ship pools, most notably for *Architectural Record*. It is noteworthy that *Architectural Record* is drop-shipped by a different printer than the one that prints the publication – a situation that we have been unable to duplicate for co-mailing or co-palletization.

⁶ The respective press releases of Brown, Fairrington and Quebecor in this regard are compiled in attachment A to this testimony.

1 I further note that these developments in and of themselves will not make co-
2 palletization or co-mailing available in the near future to all or most Periodicals that
3 could benefit from such programs, or to all or most Periodicals that would need to do so
4 in order to mitigate large postal rate increases under Complainants' proposed rate
5 structure. That may not occur until nearly all printers offer co-mailing or co-palletization
6 to their Periodicals customers. Moreover, in the case of many publications there are a
7 number of practical constraints that limit or preclude the publication's ability to reduce its
8 dependence on sacks, whether through co-mailing or co-palletization or otherwise.

9

10 **B. There Are Many Reasons Why Many Publications**
11 **May Not Be Able to Respond Effectively to the**
12 **Price Signals Advocated by Complainants.**

13

14

1. ***Co-Mailing and Co-Palletization Costs Absorb
Much of the Postage Saved by Co-Mailing.***

17 To the extent that co-mailing or co-palletization may be an option for some
18 publications (although for many publications they are not, as discussed in parts 2 – 4
19 below), the Commission should consider the added costs incurred by publications as an
20 integral part of the potential impact of the proposed rate structure on smaller
21 publications. In McGraw-Hill's experience, those printers that do offer such services
22 typically charge as their co-mailing or co-palletization fee at least one-half of the
23 postage saved by each participating publication. Witness Schick confirmed that this
24 would be a reasonable approximation. (Tr. 2/560).⁸

⁷ Witness Schick testified that co-mailing enabled even those Periodicals with editorial percentages as high as 85% or more to drop-ship economically under current postal rates. (Tr. 435-36, 531-35). The charge for cross-country transportation in a drop-ship pool is about 6.5 cents per pound.

⁸ The printers' practice of charging co-mailing and co-palletization fees based on the amount of postage saved seems rather unique in that the fees can vary widely based on factors that have little to do with the actual co-mailing costs. This may explain why a printer would favor a rate structure that de-averages

[C2004-1

Tr. 6/ 1935

1

3

4

5

6

7

8

9

10

11

12

13

14

15

17

18

19

costs and widens rate differentials. The wider the rate differentials are, the greater the potential postage savings from co-mailing, and the greater the potential profits to the printer from co-mailing.

12 2. ***Limited Opportunity for Co-mailing***
13 ***Or Co-Palletization Generally***
14

15 McGraw-Hill typically enters into printing contracts for its magazines that run from
16 three to five years. If a printer we use today does not offer co-mailing or co-palletization
 programs, we cannot simply shift our publications to an alternative printer. McGraw-Hill
18 has engaged a number of printers for its magazines, including R.R. Donnelley, Quad

1 Graphics, Brown Printing, Perry-Judds and Publishers Press. Unfortunately, many of
2 McGraw-Hill's titles that could benefit from co-mailing or co-palletization are printed at
3 plants that do not currently offer such services, Publishers Press being a notable
4 exception.

5 In an attempt to circumvent this constraint, McGraw-Hill has approached a
6 number of our print vendors that do offer co-mailing or co-palletization programs to
7 explore whether the printers would accept into such programs McGraw-Hill publications
8 printed elsewhere. This effort has been unsuccessful to date due to technical issues
9 that arise when a printer lacks control over the entire production process, as well as the
10 unwillingness of printers to unbundle a service that may give them a competitive edge in
11 seeking printing contracts. Thus, an operation that thrives on volume and the ability to
12 build density is segmented in a way that hinders growth in co-mailing and co-
13 palletization. A greater willingness on the part of printers to accept into such programs
14 titles manufactured by another printer would clearly help to build a critical mass. To
15 date, we have not seen that type of commitment on any significant scale.

16 Putting aside the unavailability of dedicated co-mailing equipment and programs
17 at printing plants used by McGraw-Hill, we have found that our opportunity to co-mail
18 publications through the use of selective binding technology is often severely limited by
19 manufacturing constraints. Although we have the benefit of controlling the schedule for
20 both publications, the composition of each title plays a role as well. There are a limited
21 number of pockets on the binder, and running more than one publication at a time
22 requires additional use of these pockets. The publications must also be of a similar

1 size, as more than a 20% variation in page count creates technical problems and is
therefore avoided.

3

4

5

3. ***Production Constraints for
Time-Sensitive Publications***

6 McGraw-Hill publishes a number of time-sensitive weeklies. One example is
7 *Aviation Week*, a highly regarded source for in-depth coverage of the aerospace
8 industry. Timely delivery of *Aviation Week* is critical to its approximately 110,000
9 subscribers worldwide. In order to reach subscribers in key markets in a timely manner,
10 *Aviation Week* is shipped via airfreight to a number of domestic and international
11 locations. It is generally difficult to send palletized mail via airfreight, as there are very
12 few commercial wide-body aircraft operating outside of the trans-continental routes.
Smaller planes cannot accommodate pallets in their cargo holds. Therefore, while
14 McGraw-Hill seeks to enter *Aviation Week* on pallets, and does so to the extent possible
15 at some entry points, it has little choice but to use sacks for some entries (and sets 24
16 piece minimums for the sacks).

17 Rates such as those proposed by Complainants could not apparently affect this
18 situation. The cost of printing the copies at multiple plants in order to avoid airfreight
19 would be prohibitive and far outweigh the additional cost imposed on the sacks. While
20 the need for timely delivery of news-oriented publications may justify use of multiple
21 printing plants for very-large-circulation publications, the fixed costs of printing
22 operations make it economically impractical to print a smaller-circulation magazine like
23 *Aviation Week* at more than one plant.

1 *Business Week* is a large-circulation, time-sensitive news weekly. It is printed at
2 four plants domestically, located in California, Wisconsin, Virginia and Pennsylvania,
3 and two plants overseas. Although more than 90% of its volume is palletized and more
4 than half is presorted to the carrier-route level and drop-shipped to destination-SCFs,
5 we have looked for opportunities to co-palletize or co-mail *Business Week*. However,
6 the delay that such processes would impose on the production schedule for *Business*
7 *Week* generally prevents us from choosing such an option.

8 Manufacturing and shipping *Business Week* in the shortest possible time frame is
9 essential in order to deliver the magazine to its readership in a timely manner, and
10 allows us to implement alternate plans in the event of an uncontrollable situation, such
11 as weather. Typically, the last pages of *Business Week* are transmitted to the printer at
12 11:15 p.m. on a Wednesday evening. Forms are delivered off the press ninety minutes
13 later and copies of the magazine are being bound by 2:00 a.m. Most weeks, depending
14 on the characteristics of the publication, the manufacturing process is complete and all
15 copies are shipped by 12:00 p.m. on Thursday, in order to achieve timely delivery to
16 most subscribers by Saturday.

17 While on the surface a 24 to 48 hour delay to accommodate co-palletization may
18 not sound significant, it would completely disrupt our distribution plan geared toward
19 achieving delivery by Saturday. Nor would it be feasible to print *Business Week* earlier
20 in the week because news magazines must keep the editorial window open as long as
21 possible for late-breaking news stories. It is very difficult to accommodate the time
22 required for co-palletization or co-mailing in such an environment, as witness Schick
acknowledged. (Tr. 2/388, 414, 425, 543-44).

1 4. **Production Constraints for Small-Circulation**
2 **Publications and Loosely Bound Publications**

Periodicals published by McGraw-Hill encompass a range of circulation levels
5 and binding methods as well as publication frequencies and weights. Each of these
6 factors may present a unique set of challenges when considering palletization or co-
7 mailing. For example, *The Outlook* is a sixteen-page financial newsletter published on a
8 weekly basis by the Standard and Poor's division of McGraw-Hill, sometimes in a loose
9 leaf format. It has a subscription base of approximately 12,500 and weighs about one
10 ounce per issue. Given the relatively small volume and low weight involved, it would not
11 be practical or cost-effective to enter the mail on pallets. Out of necessity, therefore,
12 *The Outlook* is prepared in sacks with six-piece minimums. Even apart from other
13 factors that would preclude co-mailing or co-palletization of *The Outlook*, including its
time-sensitivity, printing contract, and relatively small circulation, co-mailing of loosely
15 bound publications would be problematic.

16 The *Dodge Daily Bulletins* present even greater constraints in this regard. These
17 publications provide the latest construction project information. The contents of the
18 publication are transmitted electronically to small print centers in four locations. Each
19 publication print run is quite small; some of these publications have as few as three
20 subscribers. They are printed on Xerox Docu-Tech machines, which in simplistic terms
21 are very sophisticated copiers. The 8 ½ by 11 inch sheets are staple-bound, and
22 generally mailed at Periodicals rates. The size of these files leaves no room for varying
23 bundle size or sack quantities (much less palletization). It would not help to mail these
publications together because they each serve a different geographic region. Co-
25 mailing is not provided in these small print shops. The service delay that would be

1 necessary in order to accommodate an outsourced co-mailing operation would be
unacceptable for a daily publication – even if a printing vendor were willing to deal with
3 such small volumes that were printed elsewhere.

4
5 **C. The Price Signals Advocated by Complainants Would Be**
6 **Unmanageably Complex for Most Periodicals Mailers.**
7

8 I have long experience with the practical aspects of optimizing mail streams of
9 Periodicals publications in terms of postage and delivery-speed as well as
10 manufacturing and distribution costs. Witness Stralberg's supposition that any
11 individual with a tenth grade math education could optimize a mail stream under the
12 proposed rates (Tr. 1/280) is an oversimplification that fails to recognize the complex
13 interrelationships that would be created by such a rate structure. The permutations
involved in such a structure would introduce an entirely new level of complexity. The
15 rates proposed by the Complainants would require significant modeling; files would
16 need to be presorted with various parameters numerous times to determine the optimal
17 balance of service and cost. Changing one set of parameters will inevitably have an
18 effect on others, both from postage and delivery-speed perspectives and from
19 manufacturing and distribution cost perspectives.

20 Software tools to perform this analysis do not exist today. Mail.dat software,
21 which is extensively used for mail planning today, would be of little value for this type of
22 optimization. A mail.dat file consists of a number of files organized in a manner similar
23 to a relational database. Each file contains information about a presorted mailing, some
24 detailing bundle characteristics, others detailing container characteristics and so forth.
The files are linked through common database elements, which allows for a variety of

1 analyses to be performed. The real strength, however, lies in the ability to modify the
various parameters within the mail.dat file (for example, modifying entries for drop-
3 shipment). It is not possible, however, to use a mail.dat file to vary the number of
4 copies in a bundle – a key cost driver under the proposed rate structure. As stated on
5 the web site of Idealliance, the developer of mail.dat software: "Any analysis of a mailing
6 can be fully satisfied, except analysis unique to an address". This inability to perform an
7 analysis at the individual address level means that mail.dat software lacks the ability to
8 optimize mail under the Complainant's proposal.

9 Absent a significant amount of software development work, subscriber files would
10 need to be analyzed under the proposed rate structure through repeated presorting
11 under various parameters. The permutations could be endless because they are
interdependent. For example, if a minimum bundle size of ten is set, it may affect how
13 the mail is containerized, which may lead to variations in containers, which ultimately
14 could lead to changes in entry plans. Large mailers may be able to marshal the
15 resources and expertise needed to undertake optimization of their Periodicals mailings
16 in this regard, but I question whether small mailers would be able to do so.

6 Why does McGraw-Hill care, considering that the savings that could be realized
7 by *Business Week* under Complainants' proposal would substantially outweigh the
8 exposure of most of McGraw-Hill's smaller publications to a range of rate increases?
9 Beyond the fact that each of McGraw-Hill's publications must stand on its own
10 financially, the answer lies in a broader perspective that recognizes the considerable
11 benefits inuring to *all* Periodicals -- large and small, low-cost and high-cost -- as
members of a mail class receiving preferential rates due to the ECSI value of
13 Periodicals generally.

14 Consider *Business Week* for example. Each week over 30,000 copies are
15 entered on Thursday at the Morgan facility in Manhattan. The vast majority of these
16 copies are delivered either the next day or Saturday. All of this happens at a cost of
17 approximately 18 cents per copy. In my role at McGraw-Hill I am responsible for
18 logistics on a worldwide basis and negotiate contracts with a wide variety of carriers.
19 Rest assured that no alternative avenue available to me provides the combination of
20 price and service that is afforded by Periodicals rates.

21 While we would certainly be happy to see *Business Week* pay only 16 or 17
22 cents per copy, as might be expected under the Complainants' proposal, it seems hard
to bemoan our plight without considering the needs of the Periodicals class as a

1 whole.¹¹ All Periodicals, regardless of the size of their distribution, contribute to the
2 purpose of the class and the reasons for its preferential treatment. The Periodicals rate
3 structure should therefore continue to accommodate a broad range of publications, not
4 simply high-circulation/low cost publications. A rate structure that marginalized small
5 publications could ultimately marginalize the Periodicals class itself and call into
6 question its long-term viability. Generally speaking, therefore, it seems that rate
7 averaging is to a considerable degree the glue that holds the class together, and the
8 price for the preferential rates afforded the class as a whole – including both *Business*
9 *Week* and Complainants' publications.

¹¹ In apt words attributed to Albert Einstein: "Not everything that counts can be counted, and not everything that can be counted counts."

15 Witness Mitchell likewise failed to appreciate the role played by the flat editorial
16 pound charge in the economics of such magazines. He suggested that under
17 Complainants' proposal to apply the zoned pound charges for advertising content to
18 editorial content as well, the potentially dramatic increase in the cost of mailing a
19 publication across the country would likely be offset by the publication's marginal
20 subscription revenue (unless it is a requester publication that has no subscription
21 revenue) and/or its marginal advertising revenue (unless it is a high-editorial publication
22 that has no significant advertising revenue). (Tr. 3/860, 862-63).

23 However, contrary to witness Mitchell's explicit assumptions, (1) a publisher's net
24 subscription revenue ("circ net") may be a low percentage of the subscription price to
25 the extent subscriptions are sold through independent sales agents, as is common for

1 many publications; and (2) advertising revenue does not commonly vary directly with
circulation, and would not necessarily be affected by dropping or avoiding subscribers in
3 high postal zones. The common practice of publications that offer guaranteed rate
4 bases, including *Business Week*, is to base advertising rates on a circulation level
5 comfortably short of actual circulation so that rebates to advertisers will not become
6 necessary as actual circulation fluctuates. Other publications simply provide advertisers
7 with forecast circulation, without any guarantees, as in the case of many McGraw-Hill
8 publications.

BROWN**LOGISTICS SERVICES**

www.bpc.com

Distribution Directions

Special Issue 6/1
August 30, 2004

Published by Brown Logistics Services - Waseca, MN

Special Issue

Brown Logistics Services Announces Copalletization Service for Periodicals

"Pallets provide better dropshipping opportunities, which in turn improve delivery and reduce postage."

Robert Williams
Manager, Postal Affairs &
Delivery Services
PennWell Corporation

Brown Printing Company
2300 Brown Avenue
PO Box 1549
Waseca, MN 56093-0517

General Phone:
(485) 555-0111

Fax:
(485) 555-0122

Visit us online at
www.bpc.com

WASECA, MN August 30, 2004 - Brown Logistics Services (BLS), a division of Brown Printing Company, announced plans to provide copalletization services to its customers by January 2005. This is an initial phase of BLS' current strategy to achieve greater distribution savings and to enhance services.

The introduction of copalletization will help offset the trend in rising paper, transportation and postal costs for customers whose copies travel in mail sacks. Benefits for participants include copalletization postage workshare discounts, expanded dropship workshare discounts and improved handling and service. Copies can now be placed on pallets for transport and delivery to the USPS. The elimination of sacks will allow bundles to move further into the postal system, thus reducing handling and speeding delivery. Where delivery time for sacked mail could take 7-14 days to reach the desired destination, copalletized mail will be entered closer to the delivery point and can average 3-9 days delivery.

Although magazines that now have a larger percentage of mail that is sacked may realize greater benefits, every customer can participate and receive the benefits without requiring additional process changes or restrictions. BLS' copalletization service will be part of its everyday mailing and distribution operations, providing seamless mail delivery.

Robert Williams, Manager of Postal Affairs and Delivery Services, PennWell Corporation, agrees. "Copalletizing is the wave of the future for small volume periodical publications. It will help create more pallets while significantly reducing the number of costly mail sacks. Furthermore, pallets provide better dropshipping opportunities, which in turn improve delivery and reduce postage. PennWell is thrilled that Brown is going to be offering this copalletization service."

DISTRIBUTION STAFF

b Helms

Deb Roker

Rich DeMenno

Mark Resh

Lori Bresnahan

Erv Drewck

Bernie Schraml, Director of Distribution Services/Postal Affairs at G+J Publishing USA, says, "This is great news for the industry! The benefits of moving publications from sacks to pallets are now within reach for all publications. No matter how many magazines a publisher mails, copalletization will enable publishers to reduce their *distribution costs* by qualifying for copalletization and drop shipping discounts. This also gives a big boost to the Postal Service in its campaign to replace mail sacks with more efficient containerization."

In conjunction with ongoing USPS changes in rates, processes and technologies, Brown Logistics Services continues to actively work with the USPS and industry leaders to shape the future of mailing and distribution. BLS continues to evaluate and develop enhancements and service offerings as an overall strategy to better serve our customers.

Time Inc.'s Scott Lorenz, Director of Postal Operations and Systems, says, "Time Inc. views co-pal as an opportunity to drive costs out of the U.S. Postal Service for mailings that were originally in sacks. This new program represents one of the positive steps that can be realized by working closely with the USPS in an effective effort to reduce costs while continuing to meet the needs of mailers."

Brown Printing Company is a nationally recognized, high quality and high volume printer serving America's premier magazine, catalog and insert publishers. Brown is the 4th largest printer of consumer, trade and business publications in the country. Founded in 1957, Brown is a long-term industry leader printing more than 500 magazine titles for nearly 400 clients with annual sales of \$375 million and 2,600 employees. A Bertelsmann & Gruner + Jahr AG Company, Brown operates 3 state-of-the-art manufacturing facilities in the United States.

For further information, visit Brown Printing Company's web site at: www.bpc.com

This Newsletter contains hypertexts or references to other Internet Sites on the World Wide Web. These links are provided for your convenience only. As soon as you use these links you leave this newsletter. The linked sites are not under the control of Brown Printing. Thus, Brown Printing is not responsible for the contents or for any form of transmission received from any linked Web Site or reference linked to or from this newsletter. Brown Printing disclaims all warranties, expressed or implied, and accepts no responsibility for the quality, nature, accuracy, reliability or validity of any content on any linked Web Site. Links from this newsletter to any other Web Site do not mean that Brown Printing approves or endorses or recommends that Web Site.

FAIRRINGTON
Transportation services you can trust

Telephone * 630-783-9200
Fax * 630-783-9601



FAIRRINGTON Transportation Corporation
553 South Joliet Road Suite B • Bolingbrook, IL 60440

August 20, 2004

Fairrington Transportation announced today that it has completed contractual negotiations with several major clients to begin providing copalletization services for their client's Periodical sacked mail.

Early projections estimate an annual copalletization volume in excess of 60,000,000 pieces and an elimination of over 2,000,000 sacks.

Copal pools will be run daily and the automated process has the capability to process double the estimated annual volume.

Start up is estimated to be in December 2004 or January 2005.



Quebecor World

[Products & Services](#)

[News Center](#)

[About Us](#)

[Facilities](#)

[Career Center](#)

[Investors](#)

[Customer Services](#)

[Home](#) [Search](#) [Site Map](#) [Contact](#) [Français](#)

[North America](#) [Europe](#) [Latin America](#) [Asia](#)

August 2, 2004

[Annual Re](#)

Quebecor World Logistics Expands U.S. Short-Run Co-Mail Platform to Cut Costs and Improve Service for Magazine Publishers

Montréal, Canada – Quebecor World (NYSE, TSX: IQW) Logistics (QWL) is investing in the latest co-mail technology to reduce costs for short- and medium-run magazine publishers. With this investment, QWL will offer its enhanced co-mail process, the Express Collation Mailing System, which will reduce gross postage by up to 30 percent and improve overall postal distribution service.

This initial co-mail enhancement is the first phase of QWL's three-year strategy targeted at creating a multiple-pool platform that will ultimately offer three co-mail machines with at least 30 pockets each. QWL plans to invest in a new Chicago facility in early 2005 to house these enhanced co-mail capabilities in addition to its distribution operations.

"Rising paper and transportation costs – combined with the threat of postal increases – have created an ominous cloud over which we have little control," explains Karen Dauck, Director of Purchasing and Fulfillment for the Cricket Magazine Group of Carus Publishing Company. "But there's light at the end of the tunnel, after all! We are excited about this opportunity for our smaller-run publications to participate in QWL's co-mailing environment and benefit from maximum postal discounts."

Co-mail is a process that merges multiple mail files into a single larger list in order to maximize presort discounts and optimize packaging to get mail deeper into the postal system. QWL's Express Collation Mailing System is unique to the industry in that it offers simultaneous, dynamic multi-origin co-mailing and nationwide distribution. Unlike other networks, publishers need not adjust their scheduling just to enter a QWL co-mail pool.

"We view co-mailing as a great opportunity for short-run publishers and as being absolutely essential if we are to protect our titles from the pending rate increase," said Christy Martin, Distribution Director for Primedia Business Information. "The idea of a dynamic pooling tool as proposed by QWL is certainly very attractive to us and it will make it much easier for us to maximize the amount of mail eligible for co-mailing."

Postal rates are expected to increase by 7 to 13 percent by 2006. Short-run publishers will be hit the hardest in the next rate increase because they don't always have the volume to achieve worksharing discounts like long-run publishers; but QWL's Express Collation Mailing System will help to minimize the overall impact to these publishers. Since postage accounts for approximately 30 percent of publishers' total production costs, mailers are urging the USPS to increase worksharing opportunities such as drop shipping and co-mailing, to reduce the impact of rising rates.

"These upgrades to our co-mail platform have been well planned, and will result in a seamless process to serve our many valued customers," said QWL's President, Brad Nathan. "Our Express Collation Mailing System will help the USPS streamline operations and increase worksharing initiatives; help publishers save postage dollars; and help QWL maintain superior service in distribution overall."

QWL provides logistics and mail list services for all Quebecor World and various third party customers, handling multiple commodities including catalogs, direct mail pieces, magazines (subscriber copies and newsstand), newspaper inserts, books and bulk printed product.

Quebecor World Inc. (NYSE: TSX: IQW) is one of the largest commercial printers in the world. It is a market leader in most of its major product categories which include magazines, inserts and circulars, books, catalogs, specialty printing and direct mail, directories, digital pre-media, logistics, mail list technologies and other value added services. Quebecor World Inc. has approximately 37,000 employees working in more than 160 printing and related facilities in the United States, Canada, Brazil, France, the United Kingdom, Belgium, Spain, Austria, Sweden, Switzerland, Finland, Chile, Argentina, Peru, Colombia, Mexico and India.

Web address: www.quebecorworld.com

- 30 -

For further information contact:

Jeremy Roberts, Vice-President
Corporate Finance and Treasurer
Quebecor World Inc.
(514) 877-5118
(800) 567-7070

Tony Ross
Director, Communications
Quebecor World Inc.
(514) 877-5317
(800) 567-7070

Jennifer Lukasiak
Marketing & Business Development Manager
Quebecor World Logistics
(630) 438-2317

[Back to News](#)

Copyright 2000-2004. Quebecor World Inc. All Rights Reserved.

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED

2004 NOV -4 A 11: 27

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

COMPLAINT OF TIME WARNER INC. et al.
CONCERNING PERIODICALS RATES

Docket No. C2004-1


DECLARATION IN SUPPORT OF MOTION OF THE MCGRAW-HILL COMPANIES
INC. FOR ACCEPTANCE OF DIRECT TESTIMONY INTO THE EVIDENTIARY
RECORD
(November 4, 2004)

Pursuant to Presiding Officer's Ruling C2004-1/14 issued October 28, 2004, and in support of the accompanying Motion of the McGraw-Hill Companies, Inc. for Acceptance of Direct Testimony Into the Evidentiary Record, I, David W. Schaefer, do hereby declare under penalty of perjury that:

1. The *Direct Testimony of David Schaefer on Behalf of The McGraw-Hill Companies, Inc.*, denominated MH-T-1 and filed on September 9, 2004, was prepared by me and under my direction;
2. The only correction that I offer to my testimony as originally filed is that on page 11 in footnote 4, the aggregate annual postage savings of Time Warner Inc. under the proposed rates (without any change in mailing practices) should be changed from \$16.8 million to \$23.9 million in accord with the correction made by American Business Media in response to Presiding Officer's Information Request No. 3;
3. My testimony would otherwise be the same if I were to testify orally before the Commission in this proceeding;

4. The interrogatory answers filed under my name and designated for inclusion in the record in this proceeding were prepared by me and under my direction; and

5. My answers to those interrogatories would be the same if they were to be posed to me as part of oral cross-examination in this proceeding.



David W. Schaefer

November 2, 2004

C2004-1

TW, Conde Nast, Newsweek, RDA, and TV Guide

Robert W. Mitchell
(TW et al.-T-1)

**Response of Time Warner Inc. et al. Witness Robert W. Mitchell
to Interrogatory of American Business Media**

ABM/TW et al.-T1-1. Please provide a narrative detailing Mr. Mitchell's experience in or with the periodical publishing industry, including employment by periodical publishers or analysis of that industry.

Response:

For the past twenty-five years, the design and analysis of Periodicals rates and classifications has been among my major areas of responsibility: from 1979 to 1992 at the United States Postal Service as an Assistant to the Assistant Postmaster General of Rates and Classifications, Manager of the Primary Rates Branch in the Office of Rates, Principal Economist, and as the Postal Service's witness on Periodicals rates in Dockets No. R87-1 and R90-1; from 1992 until 2002 at the Postal Rate Commission as Special Assistant to the Chairman and Special Assistant to the Commission; and from 2002 until the present as a private postal consultant.

During these years I developed knowledge and understanding of the periodical publishing industry in many ways, including talking to mailers and publishers, observing their operations, fielding their inquiries, following newsletters and other widely circulated media (including newspaper, television, and radio reports), reading magazines such as *Folio* and *Mailing Systems Technology*, working with information sources such as *The Magazine Handbook* and the Household Diary of the Postal Service, reading testimony and briefs in cases before the Postal Rate Commission (including those of ABM, formerly ABP), and interactions with colleagues at the Postal Service and the Commission.

Initially, my work at the Postal Service centered primarily on issues relating to costing and corporate planning. Beginning in 1979, while working for the Assistant Postmaster General of the Rates and Classifications Department and in the now-defunct Office of Rates, I began working seriously and in detail on issues relating to Periodicals (then second-class) rates, including detailed attention to the workpapers supporting rates, which were then done by hand, to appropriations requests, and to

**Response of Time Warner Inc. et al. Witness Robert W. Mitchell
to Interrogatory of American Business Media**

possible changes in the structure of the rates. One of the earlier issues that received a great deal of my attention was the destination SCF discount proposed by the Postal Service in Docket No. R84-1. Questions existed about the nature of the cost study that was to be done, what special information was needed, and how the rate proposal should be designed.

Prior to my testimony on second-class rates in Docket No. R87-1, I computerized all of the supporting workpapers. This allowed considerably more inquiry than was possible previously. Specifically, we were able to assess the effects of changes and to ask classic "what if" questions. During this period, I prepared a number of studies of alternative rate structures. I do not have copies of these studies, in part because I tried to avoid taking internal documents when I moved to the Rate Commission in 1992. During this period of time, the rates people at the Postal Service worked in limited degree with the marketing people, who resided in a separate department under a separate Senior Assistant Postmaster General, but did not work much with mailers.

Following Docket No. R87-1, I took the lead in working more with the Marketing Department and in communicating more with mailers on rate issues. I felt that the more I understood mailer's situations and interests the better, and that mailers deserved but were not getting good answers to rate questions. I spoke at many second-class meetings, including those at Postal Forums, and found mailers both large and small saying: I have wondered about such and such, and have asked about it many times, but I have never been able to get a clear answer. It was in order to answer some of these questions that several managers and account representatives in the Marketing Department kept asking me to go with them to meetings.

In Docket No. R84-1, the piece rate for basic presort increased 75.7 percent. In Docket No. R87-1, it increased again by 30.1 percent. Both of these increases were virtually an order of magnitude greater than the average increase for the subclass and were also greater than the Postal Service proposed. The Commission recommended

**Response of Time Warner Inc. et al. Witness Robert W. Mitchell
to Interrogatory of American Business Media**

them in order to bring rates into closer alignment with costs and to send correspondingly appropriate signals to mailers. It was about such changes that mailers asked. If rates people are going to be involved in these kinds of changes, they need to face the mailers paying the rates, listen to their concerns, and provide explanation. Incidentally, I found in some cases that mailers had focused on specific rate cells instead of the postage for their entire mailing.

My interest in talking with mailers continued while I was working for the Rate Commission, from 1992 through 2002. I believe that the Postal Service and the Rate Commission, as independent agencies charged with achieving fair and balanced rates, have the same goals. I understand that the Commission makes rate decisions based on a record developed in a proceeding that is open to the public, but I have always felt it helpful to be able to approach that record with a good understanding of mailers and the mailing industry.

Over the years, I have addressed and talked with many mailers, at Postal Forums, Postal Customer Councils, focus groups, and meetings sponsored by industry and trade associations, including the Magazine Publishers of America, the Association of Paid Circulation Publications (now Periodicals Publications Association), the American Business Press (now American Business Media), the Coalition of Religious Press Associations, the Alliance of Nonprofit Mailers, the National Newspaper Association, the International Regional Magazines Association, the Graphic Communications Association (now IDEAlliance), the Agriculture Circulation Association, the Classroom Publishers Association, the Red Tag News Publications Association, the Direct Marketing Association, the Newspaper Association of America, the Independent Free Papers of America, and the Envelope Manufacturers Association. I have tried to recall meetings with specific publishers, apart from widely attended meetings, and recall meetings with representatives of Dow Jones, McGraw-Hill, The Hearst Corp., National Geographic, and Highlights for Children. I have also talked with managers from Brown

**Response of Time Warner Inc. et al. Witness Robert W. Mitchell
to Interrogatory of American Business Media**

Printing Company, Postal Logistics Inc., and Farrington, visited a number of printing plants, including World Color Press (now Quebecor World), Quad Graphics, and Judd's Press (now part of Perry-Judd's), and accompanied members of the Rate Commission on a number of visits to facilities of printers and publishers, including Rodale Inc. (including *Prevention* and *Runner's World*), Time Inc., RR Donnelley, and the Billy Graham Evangelistic Association (*Decision Magazine*). I attended a presentation made at the Commission by Reader's Digest. I have visited a number of Postal Service facilities, some more than once, including Atlanta, St Louis, San Diego, Baltimore, Richmond, Gaithersburg, Philadelphia, Northern Virginia, the Newark BMC and international hub, the Northwest hub in Minneapolis, Carol Stream, the Washington BMC, Washington, Charlottesville, and various destination delivery units. I was an invited speaker at an MPA meeting last year, for which they paid my transportation expenses.

I began working as a consultant to Time Inc. in November 2002. My only other Periodicals-mailer client is Scholastic, but I have not worked with them on Periodicals issues. My other clients, to the best of my knowledge, have no involvement with Periodicals mail.

Response of Witness Mitchell to ABM/TW et al.-T1-5

ABM/TW et al.-T1-5. Have you ever been an employee of, as opposed to a consultant for, a periodical publishing company? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-6

ABM/TW et al.-T1-6. Have you ever provided services related to the production of a periodical to a publishing company? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-10

ABM/TW et al.-T1-10. Have you ever arranged for the printing of a periodical? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-11

ABM/TW et al.-T1-11. Have you ever arranged for the transportation of a periodical? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-12

ABM/TW et al.-T1-12. Have you ever arranged for the distribution of a periodical? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-13

ABM/TW et al.-T1-13. In the speeches and meetings described in your response to ABM/TW et al.-T1-1, did you ever address the zoning of the editorial pound rate or other issues that have been raised by complainants in this proceeding? If so, please make copies of those speeches or notes from those meetings available, if you still have them.

RESPONSE

I have been able to identify two presentations that apply. The first was to a meeting organized by the Envelope Manufacturers Association on May 8, 2003 and the second was to an MPA meeting on June 16, 2003. Slides from both presentations are appended as Attachments A and B. The oral portions of my presentations were not read.

**Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003**

HORSE DESIGNED BY COMMITTEE



Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003

A. CHANGE IS ON THE AGENDA

- 1. Activity due to Transformation Plan, Bush Commission, Further Automation, and Network Realignment.**
- 2. Product Redesign will get more emphasis.**
- 3. Considerable attention is being given to issues like Standardization, Worksharing, Downstream Access, Niche Classifications, and Negotiated Service Agreements.**

Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003

B. MY BIASES

1. **Rate improvements should be a central part of any strategy for the future.**
2. **USPS will be better able to make these rate changes if it understands its costs.**
3. **Cost based rates serve the markets more effectively than rates that are not cost based, and they contribute to the vitality of the Postal Service.**
4. **Mailers respond to rate signals MIGHTILY.**
 - ! **Facilitated by high volumes.**
 - ! **Facilitated by mailer sophistication.**

Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003

C. CURRENT RATE SITUATION

NOT PARTICULARLY GOOD

1. In the past, we have tended to refine certain rate areas but leave major glitches in others.

2. Some worksharing signals are very troublesome.

Principal cause – Rate Averaging.

3. Some recent weaknesses are apparent.

! A Niche Classification case was filed recently with no cost information at all.

! An NSA was filed without firm-specific costs.

**Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003**

D. EXAMPLES – I

1. First-Class Mail

! Almost no separate rate recognition for letters, flats, & parcels.

! Additional postage for additional weight is too high.

! No destination entry discounts.

! Poor signals on postage sales.

24 cents per Dollar of sales at Window

**Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003**

E. EXAMPLES – II

1. Periodicals

- ! Inadequate recognition of machinability.**
- ! Poor dropship signals.**
- ! Poorly constructed pallet discounts.**

2. Standard Mail

- ! Poor dropship signals.**
- ! Too far from 100% passthrough on worksharing discounts.**
- ! Pound charges too high.**
- ! Minimum-per-piece rate causing difficulties.**

Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003

F. RATE AVERAGING and WORKSHARING

1. Dropshipping in Standard Mail

From New York to Los Angeles

! 1 Truck of _-Ounce Pieces

! 6 Trucks of 3-ounce Pieces

Y Same Dropship Discount

Y Adverse Selection

2. More Dropshipping Standard Mail

Two New York Mailers.

! One with mail for Chicago

! Another with mail for Los Angeles

Y Same Dropship Discount

Y Adverse Selection

**Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003**

G. EFFECTS OF IMPROVEMENT

1. More complex rate structures.

! Additional rate elements and zones.

! Could see something like: Charge per sack, charge per pallet, charge per bundle, charge per piece, and charge per pound, plus presortation differences and dropship differences.

**2. Some rates [and some rates **

! But all mailers would see opportunities to make efficient changes in what they are doing.

3. What should mailers do?

! Support changes that make sense.

! Work with the Postal Service on changes that make sense.

Attachment A to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Envelope Manufacturers Association, May 8, 2003

H. TO MAKE PROGRESS

1. **USPS must do studies to support changes.**
 - a. **They are under investing in analysis. The needs include mailer-specific costs.**
 - b. **The studies are needed now. They would be needed even more if USPS were fully privatized. The need is not due to the demands of the regulatory framework.**
2. **USPS must play the leadership role.**
 - c. **The changes cannot be made by the Rate Commission.**
 - d. **USPS cannot bow to political pressure.**
 - e. **USPS cannot make the changes needed if it wants full agreement before it proposes them.**
 - f. **Rate Commission must be prepared to make tough decisions.**

**Attachment B to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Magazine Publishers of America, June 16, 2003**

**ECSI Value, Binding the Nation,
And the Flat Editorial Pound Rate**

A Little History and a Few Observations

1. The rate for 2c had been 1 ¢/lb since 1885, regardless of distance or advertising content. There were no piece rates. It was recognized that this rate was highly subsidized by the Government.
2. Transportation costs in this period were very large relative to other costs. Many analyses showed that costs were 6-10 ¢/lb, particularly for long distances. Over a period of 20 years, there were many arguments to increase 2c rates.
3. In 1917, using the War Revenue Act as a vehicle, the House proposed to zone the full weight of 2c.
4. There were arguments that magazines and daily newspapers were our great mediums of exchange, that sectional publishing zones would be created, that 3 distinct zones of thought and feeling would be created. Basically, I think, the argument was that some existing publishers would stop sending to the distant zones. I have not found arguments about publishers going out of business.
5. There was concern about private profits being made on the subsidized 2c rates, particularly on advertising. A tax was considered on publisher's profits over \$4,000.
6. In a compromise, the Senate created the flat editorial rate. In the final step of the 1917 Bill, editorial became 1.5 ¢/lb and zone 8 became 10

**Attachment B to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Magazine Publishers of America, June 16, 2003**

¢/lb, 6.7 times greater. Still no piece rates, until 1971. Periodicals with 5% or less advertising were treated as though they had no advertising – I don't know when this stopped. Nonprofit rates were created by exempting nonprofits from the new rates and creating a rate for them of 1 1/8 ¢/lb, unzoned. Congress zoned advertising for Nonprofit in 1967.

7. The final 1917 rates had the flat editorial rate set at 75% of the zones 1-2 advertising rate. This specific 75% relationship has been honored until the Postal Service proposal in R2001-1. In that case, it proposed an 81.1% proportion. The settlement changed it to 77.8%.

8. Inherited in 1970, were the following rates: editorial 3.4 ¢/lb and zone 8 advertising 17.0 ¢/lb, 5 times greater, with no piece rates.

9. R71-1, starting with the Temporary rates, piece rates came into existence. In 1971, 2.4% of the volume was in zone 8 and 65.5% was in zones 1-2.

10. Congress amended the Reorganization Act in 1976 to say that ECSI value should be considered in setting rates. Book publishers had gone to court in 1974 to argue that their rates were too high. The judge said their remedy, if there is one, would have to come from Congress. It was understood, but may not be written anywhere, that ECSI value applies to Books and Periodicals.

11. R84-1. The per-piece editorial discount came into existence. The Rate Commission cut it from whole cloth because it felt the role of pound rates was being diminished. This discount has grown since.

**Attachment B to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Magazine Publishers of America, June 16, 2003**

12. **R2000-1, before the modification, zone 8 pound rate = 3.1 times the flat editorial rate. Volume: 2.8% in zone 8 and 60.5% in zones 1-2 & closer.**
13. **The cost coverage on Periodicals was 101%. Note two things. 1) The coverage on editorial was 82.3% and the coverage on advertising was 125.6%. Thus, editorial is being handled well below cost. 2) If the per-piece editorial discount did not exist, the coverage on editorial would have been 92.7% and the coverage on advertising would have been 110.8%. Thus, the per-piece editorial benefit is well over half the total benefit being given to editorial, relative to advertising. Observation: In 1917, all of the editorial benefit was on the pound rates and the benefit was highly skewed toward distance. Now, less than half of the editorial benefit is given in the pound rates, and this limited portion is mildly skewed toward distance.**
14. **In the court case following R90-1 (MOAA or Dow Jones), the Commission's justification for the flat editorial pound rate was reviewed. The court said: it is perfectly obvious that the ECSI value of local (low-zone) publications is just as important as the ECSI value of nationwide (high-zone) publications, so ECSI value cannot be used to support a decision to continue the flat editorial rate. This is very important.**
15. **The court let the Commission's decision stand because the Commission had argued, mostly in earlier decisions, that the flat editorial rate plays an important role in binding the Nation together. The court referred to this as an anti-Balkanization principle. The court repeated a Commission characterization of the choice as being between economic considerations and public policy considerations.**

**Attachment B to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Magazine Publishers of America, June 16, 2003**

16. I believe this leaves us in the following situation. 1) ECSI-value considerations support a low cost coverage on periodicals, and further support a relatively lower cost coverage on editorial and a relatively higher cost coverage on advertising (although there is no coverage split built into In-County rates). 2) The justification for the flat editorial rate rests on weight given to any role it plays in binding the Nation together.

Response of Witness Mitchell to ABM/TW et al.-T1-18

ABM/TW et al.-T1-18. During the period references at page 3, lines 10-12, did periodicals mailers take steps that should have reduced Postal Service periodicals costs, such as barcoding, palletizing and dropshipping?

RESPONSE

Yes. But note that to the extent that the postage reductions were equal to the cost reductions, these steps would not cause rates to decrease.

Response of Witness Mitchell to ABM/TW et al.-T1-21

ABM/TW et al.-T1-21. Is the First-Class rate inefficient?

RESPONSE

No absolute measure of the efficiency of a subclass is available; and if one were, it would not be possible to specify a level (or range of levels) that is efficient and another level (or range of levels) that is inefficient. Within the context of considering a specific change, one might conclude that making the change would be an efficiency improvement. Similarly, one might conclude that a particular characteristic of a subclass's rate structure is inefficient, due either to agreement that the signals it sends are perverse or in comparison to some alternative.

Based on this reasoning, First-Class rates cannot be called efficient. For example, charging the same rate for a 2-ounce letter and a 2-ounce flat is inefficient by almost any criterion. The signals sent by such a rate arrangement are perverse. I do not mean to suggest, however, that factors such as ease of administration are not important considerations.

Response of Witness Mitchell to ABM/TW et al.-T1-22

ABM/TW et al.-T1-22. Is the Standard rate inefficient?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-21, Standard rates cannot be said to be efficient. For one thing, most of the changes being proposed in this docket would apply well to Standard.

Response of Witness Mitchell to ABM/TW et al.-T1-33

ABM/TW et al.-T1-33. How will small publications be helped by what you describe at page 7, line 1, as "improvements in the pallet/sack differential"?

RESPONSE

The current pallet/sack differential is biased in the direction of dropshipping – if you don't dropship, you don't get the pallet discount, even though the savings are there. The proposed rates are not infirm in this regard. Also, under the proposed rates, sacks get dropship discounts that are fairly based on costs, just as do pallets, and the pallet/sack differential becomes small or non-existent when sacks are used effectively. Sacks should not be discouraged unnecessarily or unfairly.

Response of Witness Mitchell to ABM/TW et al.-T1-36

ABM/TW et al.-T1-36. You testify at page 8, lines 2-7, that Congress initially set periodicals rates to be "extremely attractive." Is it still important that periodicals rates be attractive, and if so why?

RESPONSE

Congress still thinks it is important, and so do I. It has singled out periodicals for separate and special rate treatment by specifying that their ECSI value must be recognized. It is not clear to me how this provision would be honored if Periodicals class rates were to come out higher than some other applicable rates.

Response of Witness Mitchell to ABM/TW et al.-T1-37

ABM/TW et al.-T1-37. You refer at page 8, lines 12-15 to congressional recognition of the ECSI value of periodicals. (a) Do improvements in printing and information technology, along with the availability of cable television and the internet, substantially diminish the need to recognize the ECSI value of periodicals? (b) If not, why not?

RESPONSE

(a) I do not see why they would. (b) In my mind, the most appropriate way to think about the recognition of ECSI value is to consider the externalities involved. I do not see how these would be affected by printing technology or cable television.

Response of Witness Mitchell to ABM/TW et al.-T1-40

ABM/TW et al.-T1-40. If your proposed rates increase rates for most periodicals, would that make the periodicals rate less attractive?

RESPONSE

No. The level of attractiveness would seem most likely to be taken as some kind of summation over volume of the difference between an applicable alternative rate and the Periodicals rate. Since the rates being proposed are revenue neutral, I don't see why this would change. Or, in the alternative, one might look at the difference between a representative alternative rate and a representative Periodicals rate.

The focus on alternatives is in order because it is difficult to evaluate a rate in isolation. Corrected for their proportions of editorial content, a finding that the rates for some periodicals are more attractive than the rates for others (i.e., some are further below the alternative rates than others) would seem to imply that something is out of balance. Were this imbalance to be corrected, it is difficult to see that any attractiveness measure would be affected in a meaningful way.

Response of Witness Mitchell to ABM/TW et al.-T1-41

ABM/TW et al.-T1-41. You state at page 11, line 12, that periodicals rates are not cost based. Are they market based?

RESPONSE

The term "market-based" has no generally accepted meaning. Accordingly, I have no idea what it is that you want to know. However, I usually think of the term in one of two ways. The first relates to whether demand is recognized when the rates are set, which might lead in the extreme to different rates for each mailer, depending on his willingness (or ability) to pay. This is not done in Periodicals. The second relates to whether the rates are structured similarly to rates that would be generated by a competitive market or in a way that would be competitive in such a market. As discussed further in my response to ABM/TW et al.-T1-28, I do not believe that Periodicals rates are market-based in this sense either.

Response of Witness Mitchell to ABM/TW et al.-T1-42

ABM/TW et al.-T1-42. Are First-Class rates cost based?

RESPONSE

The term "cost-based" has no generally accepted meaning and is used to mean different, sometimes mutually contradictory, things. Occasionally, the context is helpful. I use the term to mean that the costs of the mail in question are known and acknowledged, and that a decision on some defensible basis is made on what the markup over that cost should be. Defined in this way, I do not find First-Class rates to be cost based.

Response of Witness Mitchell to ABM/TW et al.-T1-43

ABM/TW et al.-T1-43. Are Standard mail rates cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is no.

Response of Witness Mitchell to ABM/TW et al.-T1-44

ABM/TW et al.-T1-44. Are parcel rates cost based?

RESPONSE

Please see my response to ABM/TW et al.-T1-42. Numerous changes have been made in recent years in parcel post rates, and substantial cost evidence was developed and relied on in support of each change. However, I am not prepared to evaluate whether all relevant costs have been recognized or whether the markups are defensible.

Response of Witness Mitchell to ABM/TW et al.-T1-45

ABM/TW et al.-T1-45. Is the existing periodicals pallet discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is no.

Response of Witness Mitchell to ABM/TW et al.-T1-46

ABM/TW et al.-T1-46. Is the existing periodicals drop shipped pallet discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is no.

Response of Witness Mitchell to ABM/TW et al.-T1-47

ABM/TW et al.-T1-47. Are the periodicals advertising pound rates cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that the *differences* in the advertising pound rates (which are in principle preserved in the proposed rates) are cost-based in degree, since they recognize transportation costs but not non-transportation costs, but that the *levels* of the advertising pound rates are not well related to costs.

Response of Witness Mitchell to ABM/TW et al.-T1-48

ABM/TW et al.-T1-48 Are the periodicals carrier route discounts cost-based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-49

ABM/TW et al.-T1-49 Is the periodicals 3-digit presort discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-50

ABM/TW et al.-T1-50 Is the periodicals barcode discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-51

ABM/TW et al.-T1-51 Is the periodicals DDU entry discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that it is cost-based in limited degree, due to the circumstances discussed in my response to ABM/TW et al.-T1-23 and to the flat editorial pound rate.

[C2004-1]

Response of Witness Mitchell to ABM/TW et al.-T1-52**ABM/TW et al.-T1-52** Is the periodicals DSCF entry discount cost based?**RESPONSE**

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that it is cost based in limited degree, due to the circumstances discussed in my response to ABM/TW et al.-T1-23 and to the flat editorial pound rate.

Response of Witness Mitchell to ABM/TW et al.-T1-53

ABM/TW et al.-T1-53 Is the periodicals DADC entry discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that it is cost based in limited degree, due to the circumstances discussed in my response to ABM/TW et al.-T1-23 and to the flat editorial pound rate.

Response of Witness Mitchell to ABM/TW et al.-T1-60

ABM/TW et al.-T1-60. You state at page 16, lines 18-19, that there was an "enormous waste of resources" resulting from the fact that 14.6% of Standard mail was dropshipped before 1990, but 73.3% is now. (a) What resources were wasted? (b) In each situation, didn't the mail have to be transported by someone? (c) Is it your testimony that Postal Service transportation is inherently less efficient than private transportation? (d) If so, why? (e) If not, why is it necessarily less efficient for mailers to pay the Postal Service to transport their mail than it is for them to pay private carriers to transport their mail?

RESPONSE

One of the reasons, of course, for proposing the dropship discounts in Standard (then third-class) mail was to give fair and competitive rates to mailers whose mail was destination-entered naturally, because the mail was printed in the destination city. It certainly didn't make sense for such a mailer to have the option of having the mail printed in a distant city and turned over to the Postal Service to carry back at no additional charge. But when I developed those dropship discounts, neither I nor anyone I talked to at the Postal Service had any idea how much mail would become dropshipped, though some of it involved little more than shifting control of a plant-load contract to the mailer.

The general idea in worksharing is to give a discount equal to the Postal Service's savings and to let the mailer decide who should do the work. There is no reason for the Postal Service to want to get out of the transportation business. Indeed, part of its assignment and part of the concept of a national postal service relates to its ability to amass large volumes of mail and to provide efficient transportation. Nevertheless, the rates need to reflect the costs of this provision.

When the mailer chooses to do the transporting, it is generally because he can do it at a lower cost than the Postal Service, understanding as well that there could be value in any improvement in service. This value, plus the difference between the

Response of Witness Mitchell to ABM/TW et al.-T1-60

cost to the Postal Service and the cost to the mailer is net gain, much like stemming the waste of resources. It is important to keep in mind that once the mailer takes control, he has options that the Postal Service does not have and he has incentives to innovate and to do things that he will not do for the Postal Service. For example, he might coordinate various mailings, schedule production in a different way, handle risk in a different way, and work with the trucking companies in a different way. Also, the value of any improved service is not realizable at all under Postal Service transportation.

Response of Witness Mitchell to ABM/TW et al.-T1-61

ABM/TW et al.-T1-61 (corrected). (a) Please state the basis for your assumption at page 17, footnote 8, that postage costs "are included in printer's [sic: printers'] bids." (b) did you ask witness Schick, from QuadGraphics, or any other printer if this assumption is correct? (c) If so, what was the response?

RESPONSE

I made the assumption because, whether the postage is in the printer's bid or not, I think it highly likely that the burden of paying the postage falls on the publisher instead of the printer. I have not discussed this with witness Schick or any other printer, at least not in recent years.

The point is very simple. Suppose you live in Cleveland and are the publisher of *Cleveland Supercity* magazine. And suppose further that nearly all of the copies go to subscribers who reside in the general vicinity of Cleveland. Now consider getting your magazine printed and mailed. Suppose a printer nearby will print it for 20 cents (per copy) and a printer at a distant location will print it for 19, neither including postage. The postage if printed and entered nearby is 30.0 cents (per piece), and the postage if printed and entered at the distant location is 30.6 cents. You will gain 0.4 cents (per piece) by having it printed at the distant location. But if the extra cost to the Postal Service of having your publication entered at the distant location is 2 cents, allowing you to have it printed and entered there is a really bad deal for other mailers and for the nation, and wastes energy besides. The rates need to reflect the Postal Service's costs. Without that information in the rates, you cannot and will not make the correct decision.

Response of Witness Mitchell to ABM/TW et al.-T1-69

ABM/TW et al.-T1-69. Where are the publications listed at page 22, lines 17-20, printed?

RESPONSE

I do not know.

Response of Witness Mitchell to ABM/TW et al.-T1-70

ABM/TW et al.-T1-70. Please identify the city magazine discussed at page 23, lines 11-13, and state where it is printed and whether it is drop shipped.

RESPONSE

When I worked for the Postal Service, I found myself able to obtain mailing statements quite easily, either through the Postal Service or from mailers. I recall one printer handing me consolidated mailing statements for 50 publications. Since then, it has not been so easy. In the summer of 2003, before I began to outline or develop my testimony, I did a number of Internet searches for local and regional publications. I was already familiar with the *Washingtonian* and the *Baltimore Magazine*. I found that there are quite a large number of similar magazines. I then inquired to see if I could get a mailing profile for any of the city magazines. One source referred me to another source, who was willing to satisfy my curiosity on the condition that I not use the name of the magazine or the printer. I can tell you, however, that it is entered into the Postal Service at a point not substantially distant from where it is printed.

Response of Witness Mitchell to ABM/TW et al.-T1-71

ABM/TW et al.-T1-71. You say at page 24, line 22, through page 23, line 1, that the present periodicals rate structure amounts to the Postal Service saying to a local publication with little or no advertising that it will transport it for free and that all of the freight will be paid by other mailers. (a) Please identify ten such publications. (b) what other mailers will pay the freight costs? (c) Does the Postal Service give the same message to, for example, Capital One with respect to its First-Class credit card solicitations?

RESPONSE

I have no way of identifying publications that might fit subject model. But identifying such publications would not make less troublesome the situation surrounding the signals being sent. The signals are real, and the opportunity exists to have other mailers pay the costs thus caused. Within the framework of a fixed cost coverage and fixed billing determinants, the costs are covered by *other* Periodicals mailers. When a mailer shifts toward being printed further away, the Postal Service's costs increase more than its revenues, with the implication that the rates for *all* Periodicals will have to be increased in the next rate case. The situation is undesirable.

I do not know how Capital One selects its printing locations for its First-Class solicitations. To the extent that it is a national mailer from one printing location, however, the opportunity to increase its average haul is substantial. That is, the First-Class rate structure gives such mailers the option of increasing their average haul and having their mail transported the greater distance at no apparent additional charge, by air. It is difficult to argue that the signals involved are anything but inefficient, and it seems doubtful that ease of administration and use are important issues for the bulk categories of First Class.

Response of Witness Mitchell to ABM/TW et al.-T1-76

ABM/TW et al.-T1-76. You state at page 28, lines 8-11, that you are not suggesting that all mailers can make the changes that would enable them to avoid large rate increases if the proposed rates were adopted. Please identify the types of mailer that would not be able to make such changes.

RESPONSE

I don't believe one can identify types that would not be able to make changes.

Virtually all mailers face alternatives surrounding sack makeup, sack weight, bundle makeup, bundle thickness, pallet makeup, minimum pallet weight, and entry points.

They also face questions about how to handle supplemental mailings and special editions, whether to barcode, and whether to make their pieces machinable. On many of these questions, the current rates send mailers inadequate information and leave them in the dark.

Response of Witness Mitchell to ABM/TW et al.-T1-79

ABM/TW et al.-T1-79. What percentage of the pieces produced by the complainants cannot be processed on an AFSM 100?

RESPONSE

No records exist that would allow calculation of the percentage of complainants' pieces that can or cannot be processed on an AFSM-100. Machinability sometimes varies from issue to issue, depending on weight and other factors, and the decision on what goes on the AFSM-100 is normally made by Postal Service machine operators.

However, for the purposes of the analysis performed by witness Stralberg in response to ABM/TW et al.-T1-3, the following publications were assumed to be non-machinable on the AFSM-100: *Time for Kids*, *In Style*, *Vanity Fair*, and *Modern Bride*.

Response of Witness Mitchell to ABM/TW et al.-T1-83

ABM/TW et al.-T1-83. What percentage of the complainants mail is entered at the DSCF and what percentage is entered at the DSCF or DDU?

RESPONSE

The percentages of mail entered at the DSCF and the DDU, in order, by complainant are: Time Warner 69.17 percent and 0.03 percent; TV Guide 88.28 percent and 1.32 percent; Newsweek 72.44 percent and 0.74 percent; Condé Nast 66.50 percent and 0.94 percent; and Reader's Digest 65.05 percent and 0.00 percent.

Response of Witness Mitchell to ABM/TW et al.-T1-84

ABM/TW et al.-T1-84. (a) Should all Postal Service workshare discounts be equal to avoided costs? (b) If not, under what circumstances should the discounts depart from avoided costs?

RESPONSE

Consistent with the Reorganization Act, a broad range of factors is considered when rates are set. Blanket rules are dangerous and can be counterproductive.

Generally, at least in situations where externalities do not exist, economic efficiency requires that costs be acknowledged and that markups be consistent with the elasticities and cross elasticities. Setting rates in this way has been shown to be equivalent to a breakeven version of rates that would be generated by a competitive market.

In some cases, mailers move from one rate to another by worksharing, which means they do a piece of work that the Postal Service would otherwise do. Then the Postal Service integrates the pieces into the mailstream at what is often referred to as further downstream. For example, a mailer (or an agent of a mailer) might sort pieces into trays or transport them to a destination area. In other cases, moving from one rate to another involves altering Postal Service costs by doing something that may be different from what the Postal Service would otherwise do, such as by sorting addresses on a computer, using an address file to spray on a barcode, changing the shape or processing category of a piece, adjusting the weight of a piece, or printing a piece near its destination (whether or not the mailer resides near the destination). Mail entered near the destination is often referred to as dropshipped, even when no special transportation activities have been performed. Some of these matters are discussed in more detail in my paper: "Postal Worksharing: Welfare, Technical Efficiency, and Pareto Optimality," in *Emerging*

Response of Witness Mitchell to ABM/TW et al.-T1-84

Competition In Postal and Delivery Services, edited by Michael A. Crew and Paul R. Kleindorfer, Boston, Kluwer Academic Publishers, 1999, which is available on the Commission's website.

In situations where mailers have the option of taking steps that reduce the Postal Service's costs, including worksharing activities, interest sometimes centers on setting the rates so that the mailer performs those steps in cases where the cost to the mailer (less any concomitant increase in the value of the service received) is less than the cost savings to the Postal Service. The goal here would be one of technical efficiency or lowest combined cost, adjusted for value. Setting rates in this way is generally taken to require setting the difference between the two rates, which is sometimes referred to or displayed as a discount, equal to the unit incremental cost avoided when the mailers move from one rate to the other, although the change in cost for pieces at the margin can also be important.

But there is more to ratesetting than notions of technical efficiency and lowest combined cost. Reality may not fit the scheme contemplated by the worksharing concept. Avoided costs can be difficult to estimate. Interest can center on a desire to deaverage rates in order to meet competition, reflect costs, and improve the allocation of resources. Concepts of fairness can be important. The economic efficiency of the rates may receive attention. Mailer sensitivity to the rate differences can vary, causing differences in the cross elasticities. In addition, the behavior of rates and costs over time can raise questions of continuity and the effects on mailers.

The avoided cost guideline about which you ask has been important in the past and will undoubtedly be so in the future. But many other factors can also be important. Furthermore, there are definitional problems that would influence where the rule

Response of Witness Mitchell to ABM/TW et al.-T1-84

would be applied, such as what worksharing really is and how avoided costs should be defined.

[C2004-1]

Response of Witness Mitchell to ABM/TW et al.-T1-87

ABM/TW et al.-T1-87. If the Postal Service were to begin delivery point sequencing of all flats, and if as a result the value of carrier route presort were to disappear, should the carrier route discount be immediately and completely eliminated?

RESPONSE

If the Postal Service sees an acceptable ROI for delivery point sequencing of all flats, one would expect the cost of 5-digit flats, which would cost the mailer less to prepare than carrier route flats, to be lower than the cost of carrier route flats.

Under these conditions, the rates for 5-digit flats should decline to the point of being lower than the rates for carrier route flats (without the carrier route rates rising), and mailers would move voluntarily to the 5-digit category. It would not matter whether the carrier route discount were eliminated.

Response of Witness Mitchell to ABM/TW et al.-T1-88

ABM/TW et al.-T1-88. At page 49, lines 5-6, you state that periodicals mailers find themselves with the motivation but not the tools to change the way they prepare and present mail. Did you mean to say that they have the tools but not the motivation?

RESPONSE

It is clear that the signals and the information in the rates are deficient, which detracts from incentives that could be provided. But I see mailer motivation more broadly; I see mailers saying: "I want to be involved; I am willing to help; we are all in this together; just point me in the right direction."

Response of Witness Mitchell to ABM/TW et al.-T1-89

ABM/TW et al.-T1-89. (a) In setting rates, if the Commission should find that, for example, publishers of small weekly periodicals have no choice but to mail their product in 5-digit sacks in order to obtain reasonable service, and that such sacks tend to be low volume, should the Commission take that finding into consideration in assessing your proposal? (b) If so, how?

RESPONSE

What we have is a mailer saying: "If I prepare my mail in a way that imposes extra costs on the Postal Service and the nation, I believe I can achieve in some cases a one-day improvement in service levels, which is of considerable value to me, but I should receive a subsidy for doing this, and the extra costs I cause should be paid by some other publishers." Even if there were evidence that the other publishers had excess profits, or at least higher profits than the publisher causing the extra costs, and there is not, it is difficult to see that rates should be skewed in favor of the cost-causing mailer.

Periodicals should be processed on the evening received by the sectional centers and taken out the next day for delivery. If the behavior of the Postal Service is inconsistent with operating guidelines and with the service standards for the subclasses, the situation needs to be fixed. At the present time, however, I believe many mailers see 5-digit sacks as providing a degree of service improvement that they do not really provide. Additional testing needs to be done.

Response of Witness Mitchell to ABM/TW et al.-T1-91

ABM/TW et al.-T1-91. (a) Do you agree with the manner in which the Commission treats the Alaska air costs? (b) If so, why? (c) If not, why not?

RESPONSE

An objection to this question has been filed.

Response of TW et al. Witness Mitchell to MH/TW et al-T1-6

MH/TW et al.-T1-6: With reference to your testimony at page 35 lines 14-15 that the current one-cent-per-piece discount for dropshipped pallets "presents an unnatural incentive to remove potentially attractive pallets from the Service's transportation system," (a) please explain what you mean by a "potentially attractive pallet" and (b) please explain whether you are suggesting that it would be more beneficial for the Postal Service to transport that pallet than if it were dropshipped, and explain the basis for any such assumption.

RESPONSE

(a) I mean that if the Postal Service is going to receive the same postage for transporting a pallet as it would receive for transporting an equivalent number of sacks (adjusted for the one-half-cent pallet discount), it should prefer to handle the pallet and should not arrange a discriminatory and unbalanced incentive to get the pallet to dropship. Certainly with the handling costs included (which are not in the dropship discounts), the unit transportation cost for an all-pallet system would be lower than that for an all-sack system, an outcome providing lower rates to mailers for transporting their mail. This would allow a more effective and more competitive postal system, in line with what should be its goals.

(b) Under the current rate, it would not be beneficial for the Postal Service to transport the pallet instead of it being dropshipped, because the extra postage it receives for transporting the pallet is less than its additional costs. This relationship does not hold under the proposed rates, under which the Postal Service should be indifferent.

Response of TW et al. Witness Mitchell to MH/TW et al-T1-8

MH/TW et al.-T1-8: Referring to your statement on page 45 note 39 that "Periodicals mailings are to a considerable extent repetitive," please confirm that weights of publications can vary widely from issue to issue and that under the current and proposed rate structures, such variation can substantially change the way that the mail is prepared and entered. Please explain your answer fully.

RESPONSE

Confirmed, due in part to the acknowledgment of regulations and in part to decisions made by the printer/publisher. Note, however, that postage variations and the costs of making preparation changes are presumably considered when such changes are made. Also, the rates being proposed will send improved signals to guide decisions on preparation changes.

Responses of Witness Mitchell to MH/TW et al.-T1-19

MH/TW et al. – T1-19: With reference to your testimony at page 9 line 6 through page 11 line 6:

- (a) Please confirm that inordinate increases in the attributed costs and rates of Periodicals mail have occurred since the early 1990s *despite* significantly increased use of pallets, increased dropshipping and increased worksharing of other types by Periodicals mailers during that period. If you do not confirm, please explain fully.
- (b) Please provide your best estimate of the extent of increased use of pallets, increased dropshipping, and increased worksharing of other types by Periodicals mailers since 1990 (or for whatever years data may be available). Please specify the precise sources for your answer and provide any necessary calculations.
- (c) Please confirm that the *inordinate increases* in the attributed costs and rates of Periodicals mail since the early 1990s have not apparently been caused by Periodicals mailing practices, but rather may largely be attributable to Postal Service choices or constraints, such as the apparent failure of the Postal Service to reduce sufficiently the number of its personnel assigned to process Periodicals mail after it had deployed expensive flats sorting machines (the so-called "automation refugee" problem), and/or Postal Service decisions to accord Standard mail priority use of flat sorting machines (relegating some Periodicals mail to more expensive manual handling that became even more expensive still due to the automation refugee problem). If you do not confirm, please explain fully.
- (d) With reference to Graph 1 on page 10 of your testimony, please confirm that the trend of inordinate increases in the attributed costs and rates of Periodicals mail has held steady or accelerated for more than ten years, despite increased use of pallets, increased dropshipping, and increased worksharing of other types by Periodicals mailers during that period. If you do not confirm, please explain fully.
- (e) Please confirm that an immediate effect of the proposed rate structure would be to significantly reduce the pooling and averaging of Periodicals mail costs for rate design purposes, resulting in a significant redistribution of revenue responsibility for costs among Periodicals mailers. If you do not confirm, please explain fully.
- (f) Please confirm that the proposed rate structure would tend to result in significant rate increases for (among others) high-editorial/low-circulation national Periodicals, particularly to the extent that they are unable as a practical matter to palletize or dropship their mail, and would tend to result in significant rate decreases for high-circulation national periodicals, even if they simply maintain their current levels of palletization, dropshipping and other worksharing. If you do not confirm, please explain fully.

Responses of Witness Mitchell to MH/TW et al.-T1-19**RESPONSE**

(a) Confirmed. That appears to be the case.

(b) According to PRC Library Reference 9 in Docket No. R2001-1, the proportion of pieces on pallets in Regular Periodicals is 69.1 percent (cell B136/cell B157 on the 'Test Year BR' sheet of the Outside County workbook). In Docket No. MC91-3, the Postal Service estimated the proportion of Regular pounds on pallets to be 25.9 percent (Workpapers of witness Robert W. Mitchell, USPS-T-3, showing 664,379,059 pounds on pallets and 1,901,127,243 pounds not on pallets). Keep in mind that some of the weight constraints on pallets were changed over this period.

The easiest way to develop figures for dropshipping and worksharing such as presorting is probably to compare the various volumes on pages 6 and 7 of Appendix G of the Commission's Opinion in Docket No. R2001-1 with corresponding volumes on page 7 of Appendix G of the Commission's Opinion in Docket No. R90-1. If the standard assumption is made that the zone distribution of editorial pounds is the same as the zone distribution of advertising pounds, the proportion entered in the DSCF has increased from 20.3 percent to 41.5 percent. Note should be made, however, of the fact that some portion of the DSCF-entered volume in each period was not really dropshipped, although the size of that portion is unknown. If the size of that portion were known, it could be made clear that the increase from 20.3 percent to 41.5 percent does not represent the increase in dropshipped volume or in worksharing. From the same source, the proportion of carrier route presorted pieces increased from 26.2 percent to 39.6 percent. Other proportions could be calculated.

Keep in mind that other things have been going on as well, such as the advent of barcoding by mailers, the addition of the DADC entry point, and improvements in the

Responses of Witness Mitchell to MH/TW et al.-T1-19

signals sent. Also, there have been increases in the technical sophistication of mailers and improvements in technology, such as in co-mailing and the software available. For example, the computer programs that now routinely analyze transportation and dropship alternatives were in their infancy in 1990.

(c) The increases in Periodicals costs, to which you refer, have been a perplexing problem and have received considerable scrutiny. The explanations provided by the Postal Service have not been satisfying. Analysts have raised many questions, such as those you summarize, but conclusions have been difficult to verify. I can confirm that these questions have been raised and that further inquiry is needed.

(d) The graph on page 10 of my testimony focuses on rates under certain conditions, not on costs. However, there are costs behind the rates and I can certainly confirm that they have been increasing inordinately, as you suggest. I have not analyzed whether the pattern of increases exhibits the quality of acceleration, which would seem to require curves that are convex to the horizontal axis.

(e) Confirmed as to the first part. Your question has two parts, one relating to deaveraging and the other to the effects of the deaveraging. On the first part, it should be noted that some of the deaveraging merely improves on deaveraging done in the past, which is now understood not to have followed costs in a fair way. On the second part, many of the affected mailers will be able to make changes that will improve efficiency and reduce the effects.

(f) Not confirmed. I have not found it easy to select categories of mailers that would experience one level of effect instead of another. There may be an extent to which what you suggest is true, but I have also found factors like the number of pieces in a bundle and the number of bundles in a sack to have a substantial effect on the size

Responses of Witness Mitchell to MH/TW et al.-T1-19

of any resulting increase or decrease. In this regard, please see my response to Question 1 of POIR No. 1.

Responses of Witness Mitchell to MH/TW et al.-T1-20

MH/TW et al. – T1-20: With reference to the statement at page 30 lines 13-15 of your testimony that “[s]ince mailers have *options* concerning not only what kind of container to use but also container makeup, these costs should be recognized in rates (emphasis added):”

(a) Please reconcile that statement with the statement at page 28 lines 8-10 of your testimony that “no argument is being made, and no position taken, that ... all mailers find themselves in situations where changes are feasible ...” (emphasis in original).

(b) Please state what percentage of outside-county Periodicals should, as a general matter in your view, “find themselves in situations where changes are feasible” and “have options” before Periodicals costs and rates can fairly and equitably be de-averaged in an effort to redistribute costs more precisely. Please explain your reasoning fully.

(c) Assuming that the proposed rate structure were to be adopted, please provide your best estimate of the respective percentages of outside-county Periodicals that would not in fact likely find themselves in situations where changes are feasible in order to (i) move significantly from sacks to pallets and/or (ii) increase dropshipping significantly. Please specify the precise sources and/or bases for your answers and provide any necessary calculations.

(d) Assuming that the proposed rate structure were to be adopted, please provide your best estimate of the percentage of outside-county Periodicals that may be threatened with or pushed into insolvency as a result of higher postage rates. Please specify the precise sources and/or bases for your answer and provide any necessary calculations.

(e) Please provide your best estimate of the price elasticity of demand associated with increases in postage rates for high-editorial/low-circulation Periodicals under the proposed rate structure. Please specify your sources precisely and provide any necessary calculations.

RESPONSE

(a) I do not see that any reconciliation is needed. The statements to which you refer are not mutually inconsistent.

(b) I am not able to provide a proportion of the kind about which you ask. I believe it is clear, however, that the proportion of mailers who would find it in their best interests to make changes is substantial and that they exist in virtually every size

Responses of Witness Mitchell to MH/TW et al.-T1-20

and zone category. The notion that the solution to an optimization problem would remain unchanged when virtually all of the input parameters change is not credible. Note also that the deaveraging proposed is fairer than the deaveraging it replaces.

(c) I am not able to provide estimates of the proportions in your question. Note, however, that there is a lot more to the proposed rates than pallets and dropshipping. For one thing, the dropship discounts are spread more evenly over potential dropship points in a way that recognizes the containers used and that recognizes costs more fairly. For another, the sizes of the bundles and the number of bundles per sack are shown to be quite important.

(d) I am not able to provide an estimate of a proportion of the kind you seek. I would note, however, contrary to what you may suspect, that I know of no evidence that any publications potentially finding themselves in an uncomfortable financial position would fit into any particular size category. I understand that the number of publications going into and going out of business each year is rather large. Publications exist in a competitive environment. Entry and exit decisions are made in large part on the basis of expected profitability. These decisions should be made on the basis of *market-based rates for postal services*, in kind with the other costs that publishers face.

(e) I am not able to provide estimates of the elasticities you seek. Some information in this regard is provided in my response to ABM/TW et al.-T1-64.

Response of Witness Mitchell to MH/TW et al.-T1-39

MH/TW et al. – T1-39: With reference to your response to MH/TW et al. – T1 – 3:

- (a) Please explain fully the basis for your statement that “[i]f the volume reduction is large, there is a possibility that the marginal [transportation] cost will decline, due to scale effects,” and reconcile your statement with the statement by witness Stralberg in response to MH/TW et al. – T2 – 8 that “when volume declines dramatically the marginal costs might increase for the volume that remains.”
- (b) Please explain fully the basis for your statement that a large reduction in volume may result in “lower volume variability of the Postal Service’s transportation systems.”
- (c) Please explain fully the basis for your statement that a lower volume variability of the Postal Service’s transportation systems “would result in lower unit transportation costs, not higher ones.”
- (d) Please explain fully the empirical basis for your statement, regarding the unit cost of handling sacks when mailers shift to pallets, that “the percentage decrease in the numerator [cost] is the same as the percentage decrease in the denominator [volume],” and reconcile your answer with the testimony by witness Stralberg in response to MH/TW et al. – T2 – 8 that: “Regarding sack sorting and other sack handling operations, there may be some disagreement over how volume variable those costs are. I do not know the answer to that question.”

RESPONSE

- (a) The first paragraph of my answer to MH/TW et al. – T1 – 3 defines unit cost.

The numerator is the volume variable transportation cost and the denominator is the associated volume. The second paragraph of the same answer suggests that large volume declines might cause the unit cost to decline, because of a proportionate decline in the numerator that is larger than the proportionate decline in the denominator. This possibility is based on my belief that, faced with a large volume decline, the elasticity factors developed in the Commission’s transportation analysis might tend to decline. That analysis is discussed in the Commission’s and is based in large part on the analysis presented in several cases by Postal Service witness Bradley. See Docket No. R2001-1, USPS-T-18; PRC Op. R2001-1, March 22, 2002, at 167-92; and PRC Op. R97-1, May 11, 1998, at 204-18.

Response of Witness Mitchell to MH/TW et al.-T1-39

The response of witness Stralberg that you cite refers to *dramatic* volume declines and says that the marginal costs *might* increase. I would not argue that some increase in marginal costs could not occur. Speculating about extreme positions, however, may not inform the questions being faced. Other parts of Stralberg's same response provide particularly insightful comments about more realistic issues concerning the transportation of Periodicals. These deserve greater attention.

(b) Until an altered future arrives and the analysis is done, it is not possible to know the outcome for sure. My line of reasoning assumes continuous curves and focuses on likely behavior in the limit. The first limit is a presumption that a large volume *increase* would lead to *increases* in the elasticity factors. One could certainly argue that as there become multiple, full runs every day of the largest transport equipment available, all of the elasticities would be 1.0. The second limit is to reduce the overall volume levels to very low levels. There I see a transportation system where, say, a 10 percent volume increase might cause an increase in cost of only a few percentage points.

(c) The context of my statement is: "If the volume reduction is large, there is a possibility that the marginal costs will decline . . ." I then state, in effect, that if this occurs: "This would come about from a lower volume variability of the Postal Service's transportation systems, and would result in lower unit transportation costs, not higher ones." By definition, the marginal cost at issue equals the total accrued cost of all postal transportation times the variability times the distribution-key proportion divided by the Periodicals volume. The upward effect of variability on marginal cost is obvious.

Response of Witness Mitchell to MH/TW et al.-T1-39

(d) The basis for my statement is in the fourth and fifth lines of my answer to part "b" of subject response, where I say that "economies of scale are not generally believed to exist" in sack handling operations. This is consistent with the Commission's analysis of cost segment 3.

I do not see any conflict with witness Stralberg's response to MH/TW et al.-T2-8. When he says that "there may be some disagreement over how volume variable those [sack sorting or sack handling] costs are," I understand Stralberg to be acknowledging that questions have been raised by the Postal Service in several recent cases about whether the variabilities of some manual operations might be less than 100 percent. The Commission has found, however, that the costs are fully variable.

Response of Witness Mitchell to MH/TW et al.-T1-40

MH/TW et al. – T1 – 40: With reference to your response to MH/TW et al. – T1 – 7, please explain whether you are suggesting that the “value of the service received” may not be the same for the 3-digit pallet and the 3-digit sacks, and explain fully the reasons for your answer, and reconcile it with your response to MH/TW et al. – T1 – 1.

RESPONSE

As you note, I suggested only that the value of service received *may* be different, not that it *would be expected* to be different. Whether it is different in any particular situation is an empirical question. My discussion would not be complete if I did not allow for the possibility that it could be different. There is no conflict with my response to MH/TW et al. – T1 – 1, which is a hypothetical for the purpose of explaining the concept of efficiency. It too allows for the possibility of differences in the value of service.

[C2004-1]

Responses of Witness Mitchell to NNA/TW et al.-T1-2

NNA/TW et al. T1-2 With respect to your statement on p. 1, second paragraph, would you agree that the Postal Reorganization Act requires more than just "efficient rates?" If not, please explain how you believe the requirements in Section 3622 should be interpreted.

RESPONSE

Yes. It must be said, however, that I find most if not all of the § 3622 factors to be well aligned with notions of efficient rates. See also my response to ABM/TW et al.-T1-15.

Responses of Witness Mitchell to NNA/TW et al.-T1-3

NNA/TW et al. T1-3 Do you believe the intended purpose of the unzoned editorial rates was to achieve "efficient rates?"

RESPONSE

No.

Responses of Witness Mitchell to NNA/TW et al.-T1-13

NNA/TW et al T1-13 Do you believe that publishers that do not prepare mail on pallets are uniformly indifferent to postal costs as your niece is to her landlord's water bill.

RESPONSE

No. It has been my experience that many publishers go out of their way to work with the Postal Service and to cooperate in organized efforts like MTAC. But in the absence of appropriate signals and incentives, they may stop short of the kinds of changes in ongoing productive operations that are needed, even in cases where it might cost them little or nothing to make the changes.

Responses of Witness Mitchell to NNA/TW et al.-T1-14

NNA/TW et al T1-14 On p. 16, you assert that in some cases some publishers have a choice between preparing one 24-piece bundle and 24 sacks with one piece each, and that appropriate price signals would cause the publishers to value the sack more highly. Assuming that statement means you believe that in some cases, publishers do not have a choice, do you believe that the publishers who do not have a choice should also be found to "value the sack?" If your answer is yes, please explain how the price signal will influence mailer choice if there is no choice?

RESPONSE

I certainly do not believe that the value a publisher puts on using a sack, in an absolute sense or relative to other alternatives, is or will be affected by any price signals received. Also, it is not necessary to "find" what value a particular publisher might place on a sack; given appropriate signals, the mailer will reveal his preference, which will reflect the valuation he places on the alternatives.

Responses of Witness Mitchell to NNA/TW et al.-T1-18

NNA/TW et al T1-18 Have you done any analyses of the operational issues and or the cost consequences of the issues surrounding polybags and the use of automated sorting machines? If you have, please provide copies of your work.

RESPONSE

No.

Response of Witness Mitchell to USPS/TW et al.-T1-1

USPS/TW et al.-T1-1. Between the time that you became aware that you would testify in this proceeding and today, did you conduct any field observations of flats mail processing, distribution, and delivery activities at postal facilities? If your response to this question is yes, please list the dates, facility type, facility location, and tasks observed. Please provide any copies of notes that you may have taken during those observations.

RESPONSE

No.

Response of Witness Mitchell to USPS/TW et al.-T1-2

USPS/TW et al.-T1-2. Between the time that you became aware that you would testify in this proceeding and today, did you conduct any field observations of flats printing, binding, mail preparation, and distribution activities at mailer facilities? If your response to this question is yes, please list the dates, mailer names, facility names, facility locations, and tasks observed. Please provide any copies of notes that you may have taken during those observations.

RESPONSE

No.

Response of Witness Mitchell to USPS/TW et al.-T1-4

USPS/TW et al.-T1-4. On page 3, lines 18-21 of your testimony, you state that "the makeup of bundles, sacks, and pallets, including their entry points and associated interactions, are now understood to be important cost drivers, but these factors are all but neglected in rates."

(a) Please list the specific cost drivers that you feel affect bundle costs. For each cost driver, please indicate whether you feel it is neglected in the rates.

(b) Please list the specific cost drivers that you feel affect sack costs. For each cost driver, please indicate whether you feel it is neglected in the rates.

(c) Please list the specific cost drivers that you feel affect pallet costs. For each cost driver, please indicate whether you feel it is neglected in the rates.

(d) Please list the specific cost drivers that you feel affect piece distribution costs. For each cost driver, please indicate whether you feel it was neglected in the rates.

RESPONSE

(a) The issue is not that some unidentified cost drivers affect bundle costs. It is rather that the number of bundles is the driver that affects bundle handling costs. Another link in the analysis is between volume and the number of bundles.

(b) The issue is not that some unidentified cost drivers affect sack costs. It is rather that the number of sacks is the driver that affects sack handling costs. Another link in the analysis is between volume and the number of sacks.

(c) The issue is not that some unidentified cost drivers affect pallet costs. It is rather that the number of pallets is the driver that affects pallet handling costs. Another link in the analysis is between volume and the number of pallets.

(d) The issue is not that some unidentified cost driver affects piece handling costs. It is rather that the number of pieces is the driver that affects piece handling costs. Another link in the analysis is between volume and the number of pieces.

Response of Witness Mitchell to USPS/TW et al.-T1-5

USPS/TW et al.-T1-5. On page 4, lines 1-2 of your testimony, you state, "[i]f the factors that drive costs were reflected in rates, mailers would respond accordingly."

(a) Please confirm that the mail preparation activities that are performed at a given mailer plant are not only affected by postal operations and equipment, but are also affected by the operations and equipment at the mailer plant. If not confirmed, please explain.

(b) Please confirm that there may be instances where mailers would not necessarily respond to a revised rate structure (e.g., the ability to respond was deemed to require a cost prohibitive investment, etc.). If not confirmed, please explain.

RESPONSE

(a) Confirmed. It might be more complete to say that mailers make decisions on mail preparation in view of current and anticipated postal rates, postal regulations, postal operations, and the equipment in their plants. Also, plans for equipment are made in view of current and anticipated postal rates and regulations, which emphasizes the importance of rates such as those being proposed.

(b) I agree that "there may be instances where mailers would not necessarily respond to a revised rate structure" in a way that would lead to immediate increases in efficiency. We need to keep in mind, however, that the framework within which this question is faced involves more than just investment, that changes can be small or large, and that the likelihood of zero change is low. I believe most or all mailers go through some kind of reasoning process to decide what is best for them. This could also be referred to as an optimization process, although it is not necessary to allude to advanced calculus to acknowledge that reasoning takes place. When most of the inputs to this optimization process are changed, it is difficult to argue that the decisions will be unaffected.

Response of Witness Mitchell to USPS/TW et al.-T1-7

USPS/TW et al.-T1-7. On page 12 lines 14-17 of your testimony you state, "There is little question, for example, that some of the recent growth in the volume of parcel post has been due to cost-based rate innovations, and Standard Mail rates have been moving in the direction of closer alignment with costs."

(a) Please describe the Parcel Post "cost-based rate innovations" to which you refer.

(b) Please describe the basis for your claim that "Standard Mail rates have been moving in the direction of closer alignment with costs."

RESPONSE

(a) The cost-based rate innovations in parcel post, to which I refer, are primarily those of Docket No. R97-1, where the Commission recommended a DSCF rate, a DDU rate, an OBMC rate, a balloon rate, a change in the recognition of oversize pieces, and a prebarcoded rate, much as proposed by the Postal Service.

(b) My basis is the development of the irregular shape surcharge, the extension of barcode discounts to machinable parcels, the recognition of non-machinability for letters, and the deaveraging of basic presort into mixed AADC and AADC. Earlier, a number of changes were made in and soon after Docket No. R90-1, including dropship discounts (based on both transportation and non-transportation costs), letter/flat rate differentials, extensive barcode discounts, and high-density and saturation rates.

Response of Witness Mitchell to USPS/TW et al.-T1-8

USPS/TW et al.-T1-8. On page 12-13 of your testimony, you describe how mailers have become increasingly sophisticated in their ability to respond to rate signals and specifically mention how this circumstance is related to computers.

(a) Based on that statement and the extensive Periodicals experience you describe in your response to ABM/TW et al.-T1-1, please describe the current level of sophistication for the customers of Periodicals mailers. Specifically address how increased internet usage may have resulted in the adoption of on-line Periodicals subscriptions, rather than Periodical subscriptions that have been obtained through the mail.

(b) Based on your experience working with the various members of the Periodicals industry, as described in your response to interrogatory ABM/TW et al.-T1-1, how has the increased usage of the internet affected Periodicals mail volume?

RESPONSE

(a) I have only a layman's knowledge of the practices of the "customers of Periodicals mailers." Since I see ads on the Internet regularly, I am aware that subscriptions are promoted there. For example, the website of *PC World* magazine shows such promotions.

(b) I do not know and I do not believe that anyone else knows.

[C2004-1]

Response of Witness Mitchell to USPS/TW et al.-T1-10

USPS/TW et al.-T1-10. On page 13, lines 13-15 of your testimony, you state that "the costs of handling bundles depend on the makeup (e.g., ADC, SCF, 3-digit, or 5-digit) of their containers and where they are entered, but neither are these factors recognized in rates."

(a) Based on this statement and the statement referenced in USPS/TW et al.-T1-13, please confirm that the occurrence of broken bundles also affects Periodicals costs. If not confirmed, please explain.

(b) Please confirm that the materials which mailers use to secure bundles is one element that affects bundle breakage. If not confirmed, please explain.

(c) Please describe the different materials and methods that Periodicals mailers use to secure bundles.

(d) In general, are there differences as to the materials and methods that large Periodicals mailers use to secure bundles, when compared to small Periodicals mailers? If so, please describe these differences.

(e) Have you conducted any studies that evaluate the appropriateness of various mailer bundling materials, given their impact on bundle breakage in postal facilities? If so, please provide the results of those studies.

(f) Do you believe that the materials used to secure bundles by mailers (in terms of the likelihood those materials would result in broken bundles) should also be incorporated into the rates a given mailing should be assessed? If not, please explain why not.

RESPONSE

(a) Confirmed. The costs of bundle breakage are recognized in the costing systems and in the costing models used to develop the current rates and the rates proposed in this Complaint. Also, I am generally aware that there have been, and may be ongoing, joint Postal Service/mailer efforts to deal with the bundle breakage question.

(b) Confirmed.

(c) I do not have an understanding that would allow me to provide such a description.

[C2004-1]

Response of Witness Mitchell to USPS/TW et al.-T1-10

(d) I do not know.

(e) No.

(f) Mailers who prepare bundles that do not break would certainly seem justified in being opposed to having their rates elevated by practices of mailers whose bundles do break, even though one of the elements in the breakage question is the way the bundles are handled by the Postal Service. I am not prepared to provide advice on whether this issue is best pursued through Postal Service development, joint Postal Service/maileer efforts, regulations, rates, or a process of recognizing the costs as done now.

1 III. WHAT IS WRONG WITH PERIODICALS RATES?

2 Essentially, Periodicals (then denominated "second class") came into existence in
3 1879. In 1885, the rate was set at 1 cent per pound, independent of the distance
4 transported or the proportion of advertising. If a publisher failed to qualify for this rate,
5 he paid the third-class rate of 1 cent for each 2 ounces, fully 8 times higher. Clearly,
6 Congress intended not only to separate Periodicals for rate purposes but also to make the
7 rates extremely attractive.

8 Many adjustments in rates have occurred since that time, but Periodicals has
9 remained a separate class of mail throughout. Since the Postal Reorganization Act of
10 1970 (hereinafter Act), the rate level for Periodicals has been determined, except for
11 phasing provisions, by the application of a Commission-determined markup to
12 Periodicals costs. In a 1976 Amendment to the Act, Congress required that in selecting
13 markups, consideration is to be given to the "educational, cultural, scientific, and
14 informational [ECSI] value" of the mail matter conveyed. This consideration is
15 understood to apply in its strongest form to Periodicals.¹

16 With this kind of history, one might expect Periodicals rates to be low and
17 attractive. But Periodicals rates are not low. They have been rising inordinately, and
18 their attractiveness is dwindling. One would be hard pressed to argue that this outcome is
19 consistent with what Congress expected. Something went wrong.

20 I do not contend that a few adjustments in the rates for Periodicals will solve all of
21 the problems. I do contend, however, that the current rates are inefficient to such a

¹ "Eligibility for the Periodicals class is conditioned, among other things, on a minimum amount of nonadvertising—or editorial—content. The presence of this type of content entitles all Periodicals mail to special consideration, given explicit statutory recognition of educational, cultural, scientific and informational value as a ratemaking criterion." PRC Op. R2000-1, p. 406, ¶ 5573 (footnote omitted).

1 degree that they do not conform to the policies of the Act and that improved rates that
2 enhance efficiency will improve the lot of publishers. The purpose of this section is to
3 explain some of the problems and to point to improvements. Then the next section
4 discusses more specifically the improvements being proposed.

5

6 **A. Periodicals Rates Have Been Increasing Too Rapidly**

7 Particularly since the late 1980s, there has been concern that, due to rising costs,
8 the rates for Periodicals have been rising inordinately rapidly. After years of efforts by
9 mailers and the Postal Service to stem the rising costs, or even to agree about the reasons
10 for the rise, the Commission said in Docket No. R2000-1:

11 The only conclusion is not comfortable: there are many
12 reasons for believing that costs should have decreased; only a few
13 factors that could be associated with increases; and a persistent net
14 upward trend. It is clear that mailers and the Service must
15 aggressively pursue the cost reduction opportunities identified on
16 this record, and explore other aspects of the "operational realities"
17 they face.

18

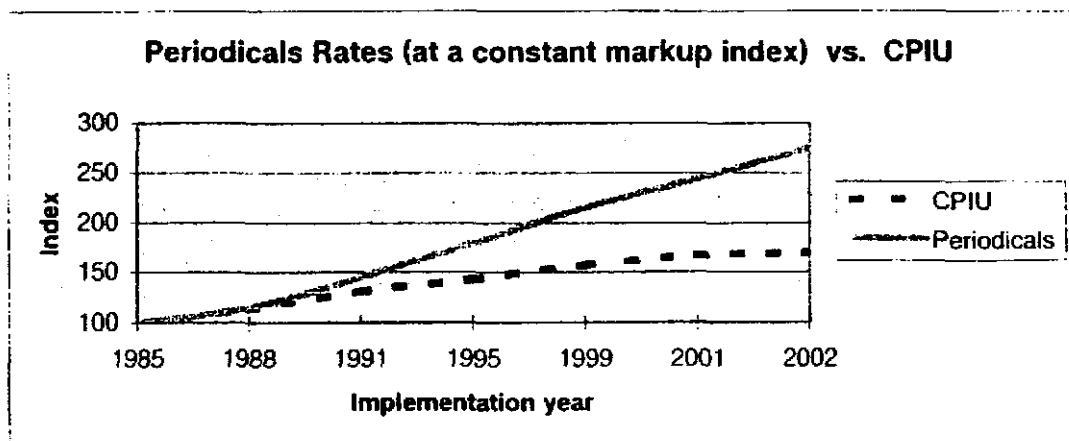
19 PRC Op. R2000-1, p. 412, ¶ 5593.

20

21 The extent of the problem is easy to illustrate. Graph 1 shows an index of
22 Periodicals rates, at a constant markup index,² along with the Consumer Price Index,
23 Urban (CPIU). The picture is disturbing. If no technological changes occurred and no
24 scale economies were realized, and if factor prices increased in accord with inflation,
25 then the index would be expected to increase with the CPIU.³ As shown, however, the

² The notion of a markup index was introduced by the Commission in Docket No. R90-1 to help compare markups over time for specific subclasses when the average markup for all subclasses varies. The index is equal to the markup for a subclass divided by the average markup, both in percentage terms. If a rate were 6 cents and the cost were 4 cents, the markup would be 50 percent. If the average markup were 75 percent, the markup index would be 0.667 (50/75).

³ Strictly speaking, this expectation requires an assumption that there have been no qualitative changes of significance in the product supplied by the Postal Service. If mailers switched to the use of pallets, for



Graph 1

Periodicals index has outstripped the CPIU, by a wide margin. Using the outcome of the 1984 rate case as a base, meaning that the indexes have a value of 100 in 1985, the Periodicals index increased to 275 while the CPIU increased to 170. The difference is substantial.

But the actual situation is worse than the picture. The Postal Service claims that important technological advances *did* occur during the period and that its total factor productivity (TFP) index increased 9.8 percent. It claims as well that it is realizing increasing returns to scale. In addition, some shifting to the use of pallets occurred, but a separate pallet rate did not exist.⁴ This means that the most supportable expectation would actually be for the price index to be *below* the CPIU. Alternatively, if increases in real wages absorbed the gains from mechanization, palletization, scale, and other improvements, the rate index still should not exceed the CPIU. It is clear no such expectations have been borne out.

example, but no separate cost-based pallet rate were reflected in the index (as was in fact the case during the period shown), one would expect the price index to *decrease*. Excepting pallets, it is not apparent that meaningful changes in the product have occurred. But if they have, possibly through the efforts of MTAC workgroups, the effect on the index would probably be to reduce rates, not to increase them.

1 This outcome is consistent with a phenomenon I have elsewhere referred to as
2 *negative technological change*. That is, mailers make cost-reducing adjustments (such as
3 the use of pallets), the Postal Service invests in advanced technology (such as flat sorting
4 machines and barcode readers), economies of scale are realized (consistent with the
5 Service's analysis of mail processing costs), and costs, corrected for inflation, do not
6 decline but *increase*.

7 By any measure, the situation is troubling. More effective measures to restrain
8 cost growth and to improve subclass efficiency are plainly needed. The most promising
9 measure—one that requires approval by the Commission—is to provide improved signals
10 in the rates for efficient conduct by aligning them more closely with Postal Service costs.

11
12 **B. Periodicals Rates Are Not Cost Based**

13 Under the Postal Reorganization Act of 1970, which supports recognition of costs
14 and of the preparation of the mail, a number of improvements have been made to the
15 Periodicals rate structure, all based on a record developed before the Postal Rate
16 Commission. In the first rate case, Docket No. R71-1, piece rates were introduced to
17 recognize that not all costs are pound related. The piece rates grew on a case-by-case
18 basis and now account for approximately 60 percent of Periodicals revenue; beyond this,
19 some evidence has been presented that the proportion should be even higher. It is clear,
20 then, that pound rates play a substantially lesser role than they did prior to reorganization;
21 indeed, the revenues obtained from the pound rates have gone from 100 percent down to
22 40 percent.

⁴ Note that since the Periodicals rate index is a constant-mix index, it is unaffected by volume shifts over the period among established worksharing categories. Changes in worksharing would, however, affect

1 In 1978, presort discounts were introduced, providing three separate presort tiers.
2 In 1985, dropship discounts (on a per-piece basis) were introduced for destination-SCF
3 entry. These discounts were subsequently expanded and refined to include both per-piece
4 and per-pound elements and to apply to destination area distribution centers and
5 destination delivery units. Saturation and high-density discounts were introduced in
6 1991, as were barcode discounts. In 2001 the number of presort tiers was expanded to
7 four. A pallet discount was introduced in 2002.

8 All of these changes improved the signals given to mailers, and they were all cost
9 based. As explained here and in other sections of my testimony, however, both the
10 quality of the signals and the extent to which costs are recognized are at this point
11 deficient. Our understanding of cost incurrence has improved substantially, especially in
12 recent years, as has the ability of mailers to respond to such incurrence. It is therefore
13 time to improve the signals and to take further steps in the direction of recognizing costs
14 in rates. Periodicals appears to be lagging other subclasses in this respect. There is little
15 question, for example, that some of the recent growth in the volume of parcel post has
16 been due to cost-based rate innovations, and Standard mail rates have been moving in the
17 direction of closer alignment with costs.

18 In times past, particularly when mailings were smaller and computers were rarer,
19 rate differences on the order of a cent per piece might not have been large enough to
20 evoke meaningful responses. But one of the realities of today's mailing environment is
21 that most mailers are reasonably sophisticated and have both the capability and the
22 willingness to analyze their operations and to respond to signals in rates. Today,
23 fractions of a cent can bring about meaningful alterations in the way mail is prepared,

revenue-per-piece figures.

1 entered, and delivered. Even small changes in the parameters and constraints in mailing
2 software can change the output in important ways, just by pressing the calculate button
3 on a computer. When such capabilities on the part of mailers are neglected, and cost-
4 based signals are not provided, the entire subclass suffers. It is important that we not let
5 this continue to occur.

6 Disparities between costs and rates are in need of attention, despite the progress to
7 date in the recognition of worksharing: (1) the *differences* among zones in the advertising
8 pound rates are based on transportation costs only, and do not recognize that non-
9 transportation costs also vary with distance; (2) the non-transportation portion of the
10 dropship discounts (relative to zones 1&2), which is largely pound oriented, is given 50
11 percent on a per-piece basis; (3) many of the costs depend on the quantities and sizes of
12 the bundles, sacks, and pallets in a mailing, but this fact goes largely unrecognized in
13 rates; (4) the costs of handling bundles depend on the makeup (e.g., ADC, SCF, 3-digit,
14 or 5-digit) of their containers and where they are entered, but neither are these factors
15 recognized in rates; (5) the one-half-cent per-piece pallet discount is based on a pound-
16 oriented savings; and (6) the one-cent per-piece pallet discount is also based on pound-
17 oriented savings and applies only to dropshipped pallets, although the savings exist for *all*
18 pallets.

19 Many of these factors can be recognized in rates, and doing so would be in line
20 with Commission emphasis in recent years on cost recognition, efficient component
21 pricing, worksharing, and notions of lowest combined cost. Recognizing them would
22 help the Postal Service to be a more effective delivery organization, and would improve
23 the lot of mailers.

1 **C. Periodicals Rates Provide Poor Signals to Mailers**

2 Signals in prices are important throughout the economy. In fact, buyers (whether
3 firms or individuals) respond more strongly to price signals than to any other force I can
4 think of. Both firms and individuals watch out for their bottom line. The following story
5 may seem mundane and far removed from the economics of big business, but it is quite
6 relevant. I have a niece who lived in an apartment in Indianapolis for some years, and
7 had a cat. She told me that she left her kitchen faucet running slowly night and day, so
8 that her cat could get a drink. I asked her about her water bill. She said: "What
9 difference does it make? My water is included in my rent." Without appropriate signals,
10 people make inefficient decisions.

11 The current rates send underdeveloped signals to mailers, thus failing to provide
12 them with a reasonable and valuable avenue for responding to the high costs. It is
13 difficult to accept that putting mailers in this position is consistent with the ratesetting
14 guidance contained in the Act.

15 The following observations indicate the importance of signals generally and the
16 inadequacy of the signals given by the current rates.

17 Our understanding of cost incurrence and how it should be reflected in rates
18 progresses as we make advances in cost analysis. For many years, attention centered on
19 whether costs were piece-oriented or pound-oriented, with some recognition of cubic
20 measures in parcel post.⁵ If only reality were so simple. More recently, attention has

⁵ The reasoning has been that a marginal cost can be partitioned into a piece-related cost and a pound-related cost. If the number of pieces increases, say, 10 percent and the number of pounds remains the same (which requires a decrease in the per-piece weight), the piece-cost will increase 10 percent and the pound-cost will remain unchanged. Alternatively, if the number of pounds increases 10 percent and the number of pieces remains the same (which requires an increase in the per-piece weight), the pound-cost will increase 10 percent and the piece-cost will remain unchanged. It is not necessarily the case, however, that such a

1 focused increasingly on cost drivers and on linkages among cost drivers and volume.⁶
2 Part of the interest in cost drivers derives from the increased use of mechanization and
3 automation by the Postal Service. For example, with bundles now being sorted on small
4 parcel and bundle sorters (SPBSs), the cost of sorting bundles is virtually independent of
5 the weight of the bundles and the number of pieces in them. Similarly, with the use of
6 sack sorters and lift trucks, the costs of sorting sacks and pallets are virtually independent
7 of the nature of their contents.⁷ Moreover, the processing these receive depends on their
8 makeup and their entry point. When these factors are not recognized in rates, mailers
9 cannot be expected to understand or respond to the costs of handling their mail.

10
11
12 The current relationship between rates and actual processing is disjointed and
13 sometimes perverse, as James O'Brien explained in his testimony in Docket No. R2000-
14 1. (Tr. 24/11166). For example, the same carrier-route bundles receive different
15 processing and incur different costs depending on whether they are on 5-digit pallets or 3-
16 digit pallets. Yet, these pieces pay the same rates. Faced with such signals, mailers

partitioning is always possible. That is, it is not always the case that the cost function, even for marginal cost in a relevant range, can be described well by an equation of the form $MC = a * \text{pieces} + b * \text{pounds}$.

⁶ For example, see Michael D. Bradley, Jeff Colvin, and John C. Panzar, "Issues in Measuring Incremental Cost in a Multi-function Enterprise," pp. 3-21, in *Managing Change in the Postal and Delivery Industries*, ed. Michael A. Crew and Paul R. Kleindorfer, 1997, Kluwer, Boston. Also see "Technical Report #1: Economic Analysis of Data Quality Issues," especially Chapter 2, *Data Quality Study*, prepared for the United States Postal Service, Contract No. 102590-97-B-1972, April 16, 1999. The Commission has emphasized reliance on cost drivers as well. In a discussion of transportation costs, for example, it said: "This step is viewed as relating to the behavior of pricing in the transportation markets in the sense that the cost at which transportation can be procured is related to the cubic-foot-miles of capacity involved; in the parlance used in recent years in such analyses, cubic-foot-miles of capacity is called a 'cost driver' of transportation costs." PRC Op. R2000-1, p. 169, para. 3250.

⁷ One dimension of scale economies is that a larger-scale operation might have heavier bundles, sacks, and pallets. These economies cannot be realized if inappropriate signals are given to mailers.

1 cannot be expected to consider the cost implications of the preparation decisions they
2 make.

11 Before Docket No. R90-1, the rates for Standard mail were uniform nationwide.
12 In that case, consistent with principles of efficient component pricing, lower rates were
13 allowed for mail entered at destination BMCs, SCFs, and delivery units. Going into the
14 case, the Postal Service estimated that 14.6 percent of Standard mail was dropshipped.
15 Today, 73.3 percent of it is dropshipped, and the efficiency of the class has increased
16 dramatically. Changes of this magnitude point to the efficacy of signals in rates in
17 promoting more efficient mailer behavior.

18 The difference between 14.6 percent and 73.3 percent represents an enormous
19 waste of resources, at the expense not of the Postal Service, since it is entitled by law to
20 charge rates that achieve breakeven, but of Standard mailers themselves. Until the advent
21 of correct price signals, however, they were helpless to do anything about it. Periodicals
22 mailers are currently in much the same situation.

1 It is not reasonable to expect publishers, or printers, or anyone else to consider
2 costs that do not affect their bank accounts. So, if the Postal Service charges no more to
3 deliver to more distant locations, it is unreasonable to expect printing bids to reflect the
4 additional transportation costs that the Postal Service incurs, or to expect the publisher to
5 recognize those costs.⁸ In the extreme, if service were not an issue and rates were not
6 dependent on distance, all printing could be done in Guam and the publisher could not be
7 faulted for making a bad decision. But publishers collectively would nonetheless suffer
8 from such decisions, because *all* of the handling and transportation costs for Periodicals
9 *are* attributed to Periodicals, even if they are not transcribed into rates that recognize
10 actual handling and distance. If all publications were printed in Guam, handling and
11 transportation costs for Periodicals, and, accordingly, all Periodicals rates, would be
12 exceedingly high, although no publisher or printer would be right to regard his own
13 choices as the reason for those high rates.

14 The implications are clear. In order for publishers and/or printers to make
15 efficient decisions about distribution methods and/or printing locations, and thereby to
16 bring about efficient, low-cost postal services, postal rates must reflect the Postal
17 Service's costs. The extent to which they do so currently is limited. Insofar as
18 unnecessary or inefficient transportation over long distances is concerned, the problem is
19 two-fold. First, due to the unzoned editorial pound rate, the postage paid does not reflect
20 the higher *transportation* costs associated with the higher zones. Second, as Periodicals

* I am assuming that postage costs are included in printer's bids. Another possibility is for the printer to bid without postage and then somehow pass the postage through to the publisher. Either way, the publisher should be considering the postage.

[C2004-1

1 rates have been developed thus far, neither does the postage paid reflect the higher *non-*
2 transportation costs associated with the higher zones.

3 Recognition of the importance of rates as signals for efficient behavior is not new.
4 In Docket No. MC95-1, where automation and bulk bypass were issues, the Commission
5 said that "[r]ates send economic signals to mailers," that it "remains committed to
6 adapting mail classifications and . . . rates to the demonstrated cost savings resulting from
7 automated processing," and that its decision would "encourage mailers to provide mail
8 that is compatible with automated processing and the bulk bypass of processing." PRC
9 Op. MC95-1, pp. 1-9-10, ¶¶ 1023-24. Rates that are better aligned with preparation
10 options and their associated costs, as proposed in this Complaint, would undoubtedly
11 have an effect on mailer decisions, whether it be on the sizes of the bundles, the
12 containers selected, the makeup and contents of the containers, or the entry points.
13 Mailer responses to these signals would make Periodicals more efficient as a subclass.

1
2
3
4 2. Impact of the unzoned editorial rate on local and regional publications

5 According to *The Magazine Handbook*, published by the Magazine Publishers of
6 America,¹⁷ there were 17,321 different magazine titles published in the year 2002.
7 *Handbook*, p. 4. In Docket No. R2000-1, the Postal Service indicated that there were
8 9,679 Nonprofit permits and 22,798 Regular permits, with an overlap of 1,218.¹⁸ These
9 numbers are large enough to contain subgroups of considerable size, an important one
10 being local and regional publications. Some of these publications are represented on the
11 Mailers Technical Advisory Committee by the City and Regional Magazine Association,
12 which has existed for 25 years and whose 87 member magazines have circulations
13 averaging in the range of 25,000 to 50,000. Most of the copies are delivered within a
14 given metropolitan area, and very few use In-County rates.¹⁹

15 The local and regional category includes publications devoted to particular
16 industries or professions, such as the eleven different construction magazines published
17 by McGraw-Hill, including *California Construction News*, *Colorado Construction*,
18 *Louisiana Contractor*, and *New York Construction News*,²⁰ publications centered on
19 individual cities, such as *Chicago*, *Cincinnati*, *Indianapolis Monthly*, and *Kansas City*
20 *Home Design*, state travel magazines, such as *Ohio* and *Wisconsin Trails*,²¹ college

¹⁷ *The Magazine Handbook* is available on MPA's website:
http://www.magazine.org/Government_Action/2408.cfm

¹⁸ See Docket No. R2000-1, interrogatory response CRPA/USPS-T38-3, Tr. 17/6959.

¹⁹ See <http://www.citymag.org>.

²⁰ See the McGraw-Hill web site <http://regionalpublications.construction.com/>.

²¹ See <http://www.magazinetime.com/categories-regional---local-mid-west.html>.

1 alumni magazines,²² regionally and locally oriented religious publications, and various
2 publications that cater to geographically concentrated ethnic communities or interest
3 groups, such as *The Baltimore Afro-American*.

4 Around the subclass average, a publication's implicit cost coverage is a function
5 of its proportion of advertising content, among other things. This reflects the recognition
6 of ECSI value. In order to abstract from this effect, and to allow balanced comparisons, I
7 assume that all local and regional publications have an average proportion of advertising
8 content. It follows that if they were average in other respects as well, their cost coverages
9 would all be equal to the average for the subclass. But these publications are not average
10 in other respects. Importantly, their final delivery occurs primarily in limited
11 geographical areas, regardless of where they are printed. I know of one city magazine
12 that is entered in zones 1 and 2. Ninety-four percent of its copies stay within those two
13 zones.

14 Another factor affecting publications' implicit cost coverages is their postal zone,
15 with respect to which local and regional publications may be viewed as falling into one of
16 two camps. Camp 1 is composed of publications printed in close proximity to their final
17 delivery area. These publications have short hauls and relatively high cost coverages.
18 They represent what would seem the natural and expected model for publications with
19 geographically concentrated subscriberships. Camp 2 is composed of publications
20 printed some distance from their delivery area and then carried to the delivery area by the
21 Postal Service. These publications have a substantial haul and relatively low cost
22 coverages.

²² The graduates of larger, more prominent schools that draw students from across the nation may be distributed widely, but there are thousands of smaller schools that draw largely from their own states and

1 Camp-2 publishers have made decisions to print some distance from their home
2 base. There is no reason to believe that these decisions were not rational, given the rates
3 they see. But these rates do not show them the full costs of their decisions and thus they
4 cannot be expected to make efficient decisions. Because the increase in postal rates
5 attendant to a decision to print at a distant location is less than the associated increase in
6 postal costs, Camp 2 publishers have unknowingly made decisions that imposed extra
7 costs on someone else. Camp-1 publishers, who are printing in close proximity to their
8 delivery area, are paying these extra costs, and thus are helping to finance longer-distance
9 mail.

10 Camp 1 publishers should not be discriminated against, and Camp 2 publishers
11 should not be blinded to the resource implications of their decisions. Both should be
12 given cost-based signals and then allowed to choose where to print. Those who decide to
13 print locally should not be required to pay elevated postal rates to help support publishers
14 who make different decisions or who mail more broadly.

15 The discussion thus far has assumed that local and regional publications have an
16 average degree of advertising content. This assumption is important to thinking clearly
17 about implicit coverages, cost-based rates, and the signals sent to mailers. But when one
18 begins to look at real situations and actual decisions, it is evident that the proportion of
19 advertising content is actually quite important. Consider, for example, a local publication
20 with little or no advertising, whose increase in postage with distance is therefore
21 negligible. The current rate structure puts the Postal Service in the position of saying:
22 "You can print your publications 3,000 miles from where your subscribers live if you
23 wish. We will carry it back at no additional charge. All of your freight will be paid by

communities, and whose graduates tend to remain much closer to home.

1 other mailers." This is an extreme example of inappropriate signals in rates. In the case
2 of a *nationwide* publication distributed from one location, *some* of the copies will be
3 carried a considerable distance at no additional charge; in the case of a *local* publication
4 printed far from home, *all* of the copies will be carried a considerable distance at no
5 additional charge.

6 Publications whose subscribers are concentrated in limited geographic areas exist
7 naturally, because of who they are, and are not the result of plucking unusual
8 observations from the tail of a distribution. There is nothing random about them, and
9 they are not part of some kind of continuum that warrants averaging for rate purposes.
10 The local and regional grouping represents a legitimate focus and warrants attention. I do
11 not contend that this group should be singled out for any kind of preferred treatment, but
12 it certainly deserves to be treated fairly.

1

2

3

4

5

6

7

8

9

Per-Sack and Per-Pallet Charges. Sacks are the traditional container for mail

and are handled in various ways. Pallets are more recent and are handled with lift trucks,

although pallet jacks are sometimes used. Intuitively, a cost is incurred each time a sack

or a pallet is handled, and this cost is relatively independent of both the weight of the

container and the number of pieces on (or in) it. Since mailers have options concerning

not only what kind of container to use but also container makeup, these costs should be

recognized in rates.

Sacks and pallets incur costs up to the point where their contents are removed and

processed further. Clearly, a container entered far from its destination receives more

handling than a container entered at its destination. Also, a container should not be

entered further downstream than its makeup. For example, an ADC container should not

be entered at a destination SCF, as it would then have to be hauled upstream to the ADC

for processing.

22

1

2

3

4

5

6

7

8

9

Pallet Discounts. As reviewed partially above, the current rates contain an

overlay of three pallet discounts. First, a one-half-cent per-piece discount is provided to

all pieces on approved pallets. Second, an additional one-cent per-piece discount is

provided to all pieces on dropshipped pallets. Third, effective April 20, 2003, as a result

of Docket No. MC2002-3, an even further discount of either one cent per piece or 0.7

cents per piece is provided, in order, for DSCF and DADC entry of qualifying co-

palletized pieces.

10

Generally, these discounts reflect costs in an uneven way and do not present

11

mailers with a true reflection of the cost consequences of their decisions. For example,

12

the savings on which the one-cent-per-piece discount (No. 2 in the previous paragraph) is

13

based exist whether or not the pallet is dropshipped, yet the discount is given only if the

14

pallet is dropshipped. This presents an unnatural incentive to remove potentially

15

attractive pallets from the Service's transportation system. Similarly, the savings on

16

which the co-palletization discount (No. 3 in the previous paragraph) is based exist for

17

both sacks and pallets, whether co-palletized or not, but the discount is given only for co-

18

pallets. In addition, on a per-piece basis, the cost of handling pallets as they move across

19

the country is less than the corresponding cost of handling sacks, but these differences are

20

not recognized at all. Finally, many, perhaps most, of the pallet savings are pound-

21

oriented; yet the discounts are given on a per-piece basis.

22

23

1 V. COMPLIANCE WITH REORGANIZATION ACT

2 In addition to certain general policies, the Act identifies two specific sets of
3 factors that should be included in considerations leading to rates. One set is found in §
4 3622(b) and the other in § 3623(c). Although there is overlap, the former set is specified
5 as applicable to changes in rates and fees, and the latter set as applicable to "changes in
6 the mail classification schedule." § 3623(b). In practice, the former set has received its
7 greatest scrutiny in regard to selecting markups for the various subclasses and services,
8 consistent with breakeven, as is typically done in omnibus rate cases. They are
9 important, then, as much or more in a relative sense as in an absolute sense.

10 The rates being proposed are guided by an interest in giving mailers more
11 appropriate signals. The belief is that such signals will bring about more efficient
12 decisions, which will improve the efficiency of the class, the lot of the mailers, and the
13 contribution that periodicals make to the nation. Practically speaking, the rates being
14 proposed recognize more effectively the costs of bundles, sacks, and pallets, and
15 associated interdependencies, including entry points, in a way that aligns operationally
16 with decisions mailers make. To an extent, then, the changes focus on the implicit
17 markups of mail categories (some of which may be viewed as new), a process the
18 Commission has indicated is at the heart of rate design.^{17 38} No changes in subclass
19 markups are proposed.

¹⁷ The phrase "implicit coverage" (or "implicit cost coverage") is used in rate proceedings to refer to cost coverages calculated for categories or other groupings of mail that fall *within* subclasses. Such coverages are usually expressed in percentage terms. The numerical value of an implicit coverage is not necessarily implied by anything other than that the numerator is the revenue of the category and the denominator is the corresponding cost. In percentage terms, the implicit *markup* equals the implicit coverage minus one hundred percentage points.

¹⁸ See PRC Op. R2000-1, p. 390, ¶ 5533, where the Commission said: "Rate design for a subclass can be thought of as setting the implicit percentage markups for each rate category."

1 Periodicals has long been regarded as the class with the most complex rate
2 structure. To the extent that this is true, it has been because of: a) the way in which rates
3 differ for editorial and advertising content and b) an interest in being at the forefront of
4 recognizing costs in rates.³⁹ At any particular time, however, cost recognition is limited
5 by the data that are available, the analysis that has been done, and our understanding of
6 the mail and its markets. Especially with the improved flow models now being used, our
7 perspective is much better than it was even a few years ago.

8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

³⁹ Another point worth noting is that since all periodicals are required to have a frequency of publication and a list of subscribers or requesters. Periodicals mailings are to a considerable extent repetitive. Thus, once mailing arrangements are made, any associated efficiencies can be realized over and over.

1

2

3

4

5

6

7

8

9

Section 3622(b)(3). Costs

10 This section has been interpreted, for the most part, to require that *subclasses* of
11 *mail* recover their costs, with appropriate cost coverages. But, as the Commission noted
12 in Docket No. R2000-1, quoted also above "[r]ate design for a subclass can be thought of
13 as setting the implicit percentage markups for each rate category." Op. p. 390, ¶ 5533.
14 Clearly, the interest in tracing costs goes well below the subclass level as, I believe, it
15 should. Indeed the contribution that the classification approach makes to the setting of
16 appropriate rates is that it helps provide a fair path to establishing rates for particular
17 mailpieces that recognize their costs and other appropriate factors. If the cost coverages
18 on particular mailpieces were found to be substantially higher than the coverage for the
19 subclass as a whole, or even if substantially lower, including the possibility of coverages
20 below 100 percent (indicating below-cost rates), a case could be made for inquiry into
21 whether the pieces are appropriately classified and rated. Much of the history of
22 ratemaking under the Reorganization Act has involved questions of whether new rate

1 categories (within subclasses) should be established and of how these categories should
2 be priced.

3 The Commission has often shown an interest in the cost coverages on particular
4 groups of mail within subclasses. For example, after considering the coverage on
5 Standard mail above and below the break point, it concluded:

6 The Commission hopes that reliable information on
7 implicit markups may make it possible to calculate the total
8 amount of revenue that should be obtained from pieces above and
9 from pieces below the break point. This would be an important
10 contribution to ensuring that intra subclass rate relationships for
11 Standard Mail are fair and equitable. The separate issue of the best
12 way to design rates for the pieces above and below the break point
13 might also be addressed by studying implicit markups.

14
15 PRC Op. R2000-1, p. 392, ¶ 5540.

16
17 Similarly, in regard to the Residual Shape Surcharge in Standard, on the same
18 record, the Commission said:

19 Several objections raised on this record were also presented
20 and resolved in Docket No. R97-1. In essence, these include
21 arguments that there is no cost coverage requirement below the
22 subclass level; that costs should not be "blended"; and that other
23 mailers have not objected to "averaged" costs. The Commission
24 has once again considered the validity of these arguments, but
25 finds no sound reasons to depart from its previous conclusions. In
26 general, the Commission continues to believe that overall
27 considerations of fairness and equity and an interest in cost-based
28 rates overcome opponents' objections.

29
30 PRC Op. R2000-1, p.357, ¶ 5436.

31
32

33

34

35

1

2

3

4

5

6

7

8

9

10 **Section 3622(b)(6), Preparation**

11 This criterion requires that consideration be given to the "degree of preparation of
12 [the] mail . . . by the mailer and its effect upon reducing costs to the Postal Service."

13 The importance of this criterion, and the role it has played, is great. It has been the basis
14 and justification for a wide and still evolving range of worksharing discounts, which have
15 set the United States apart from most countries of the world.⁴¹ In addressing, as it does,
16 the general issue of "preparation," its importance goes beyond issues of worksharing *per*
17 *se* and to issues of the nature of the mail itself, for the preparation of mail involves
18 decisions on bundles, containers, and entry points. These issues are addressed
19 specifically by the rates being proposed.

20 One of the great failures of the current rates is the extent to which they do not
21 allow mailers to see the cost effects or the efficiency implications of the decisions they

⁴¹ See: Elcano, Mary S., German, R. Andrew, and Pickett, John T., "Hiding in Plain Sight: The Quiet Liberalization of the United States Postal System," in Michael Crew and Paul Kleindorfer, *Current Directions in Postal Reform*, pp. 337-52, 2000, Kluwer, Boston. Also, the Commission said: "The concept

1 make. Mailers cannot be expected to do what is best when they are given financial
2 incentives to do something different. Yet these same mailers are forced to live with the
3 cost implications of their decisions, because the rates they pay are ultimately based on
4 costs.

5 One could argue that mailers are hamstrung; they want to do something to help,
6 but are given no guidance. The proposed rates break through this blindness and allow
7 them to consider the efficiency improvements that are possible by aligning preparation
8 decisions with the value of the service and its associated costs. Mailers will be expected
9 to do nothing more than watch out for their own best interests, and at the same time reap
10 the efficiency benefits of being able to balance the benefits and the costs. The overall
11 efficiency of the Periodicals subclass should increase.

12
13
14
15
16
17
18
19
20
21
22

of worksharing has been widely applied and is credited with helping the Service to attract expanding volumes of mail and to improve its productivity." PRC Op. MC95-1, p. III-26, ¶ 3068.

[C2004-1

Tr. 37] 1142

21 Q Please look at page 5 of the same
22 presentation. You have what I think can fairly be
23 characterized as some criticisms of the First-Class
24 Mail structure. I gather, and would I be correct in
25 concluding that you do not believe that the First

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/] 1143

1 Class Mail structure is appropriate? The rate
2 structure, that is?

3 A I believe that there are improvements that
4 could be made effectively in the First Class Rate
5 structure. I think the Postal Service in fact is
6 considering some of them for the next case. It is
7 widely understood that they are going -- or are
8 thinking about separating letters from flats.

9 For example, if you take a two ounce letter
10 and a two ounce flat, they both take 60 cents. So a
11 mailer of a letter can easily say, gee, I will convert
12 this into a flat. It is a little easier to me, and I
13 will impose some additional costs on somebody else.
14 It doesn't make any difference.

15 But a person with a flat might say, gee, I
16 can convert this into a letter, but there is no reason
17 to. And if there is a rate difference, and if they
18 have to pay their own way, they might make the change
19 and everybody might be better off.

20 So for that reason, among others, you would
21 not call the First Class rate structure efficient
22 would you?

23 A No, I wouldn't. I think there is some
24 variable changes that could be made. We have been
25 moving in that direction very slowly, I think.

[C2004-1

Tr. 3/ 1144

1 Q And you would not call it a standard mail
2 classification, which you criticize on the next page,
3 efficient either would you?

4 A I believe in the standard as well that there
5 are some improvements that we understand now that we
6 are in a position to make, and many of them are the
7 same as the ones that are discussed in the complaint.

8 I think that they imply that similar changes
9 could be made for standard.

10 Q And on page 7, one of your criticisms, or it
11 looks to me like a criticism of standard mail, is that
12 you have two dropped shippers, one with mail from New
13 York, and one with mail to Chicago, and they get the
14 same discount.

15 And your problem there, I guess, is that
16 standard mail isn't zoned; is that right?

17 A That's right. Now, this structure of
18 dropped shipper discount in the standard was just put
19 in the R90 case. So it may be time to take a further
20 step.

21 Q So First Class isn't zoned; that's right,
22 isn't it?

23 A That's right, it's not.

24 Q And standard isn't zoned?

25 A You could argue that standard has a

[C2004-1

Tr. 3/ 1145

1 nationwide zone and a DBMC zone and DSCF zone, and a
2 DDU zone. But it does not have a traditional zone
3 structure.

4 Q Is priority mail zoned?

5 A I am trying to distinguish in my mind
6 between priority and express. It seems to me like
7 express started out zoned and became unzoned, and
8 maybe it is zoned again. I am not sure, but I think
9 that priority is zoned.

10 Q And what about express mail?

11 A I think the postal service had a separate
12 classification case back a number of years ago which
13 made it unzoned because of the Hub system. And I
14 think the Hub system, when the competitors have made
15 changes today, which suggest that it might be better
16 to zone it again in order to be competitive and
17 recognize costs. Part of the --

18 Q Mr. Mitchell, the question is whether it is
19 zoned, and not -- we are going to be here a very long
20 time --

21 CHAIRMAN OMAS: Mr. Mitchell, would you just
22 answer the question that is being addressed to you. I
23 think we would all appreciate that. Thank you.

24 THE WITNESS: I don't believe that express
25 mail is zoned at this time.

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/ 1146

1 BY MR. STRAUS:

2 Q So you think that priority mail is zoned,
3 and the periodical advertising rate is zoned. What
4 else is zoned today?

5 A Parcel Post.

6 Q And that's it?

7 A Bound printed matter.

8 Q Is there a question mark with that or a
9 period?

10 A I always feel funny trying to give all-
11 inclusive lists extemporaneously.

12 Q Well, you can state, "I don't recall," and
13 is an acceptable answer to me if it is to you.

14 A I think that's it.

15 Q Please look at page 9 of that presentation.

16 A Yes.

17 Q This presentation appears to have been made
18 a little more than a year ago, May 8th, 2003, and that
19 is what appears at the top of that page; is that
20 right?

21 A Yes.

22 Q And your first numbered point there is that
23 UPS must do studies to support changes. Can you tell
24 me what studies the Postal Service has done since then
25 to support changes?

[C2004-1

Tr. 3/ 1147

1 A I don't believe I can tell you what studies
2 the Postal Service has done since May 2003.

3 Q You don't know the result of any studies do
4 you? What kind of studies were you talking about here
5 that are necessary to support changes?

6 A You are asking me if I know the results of
7 any of those studies?

8 Q Yes. Do you know the results of any studies
9 the Postal Service has made since 2003, the kinds of
10 studies that you say are necessary?

11 A I have not seen the results of any studies
12 done since then.

13 MR. KEEGAN: Mr. Chairman, I object to the
14 question. It mischaracterizes the witness' testimony.
15 He does not state that these studies are necessary for
16 anything. He says that USPS do them.

17 MR. STRAUS: Part B says that the studies
18 are needed now, and needed to me means necessary, and
19 if it means something else to Mr. Keegan, we will
20 brief the issue, but I don't think I misrepresented
21 when the witness himself used the word needed.

22 MR. KEEGAN: Needed or necessary or not is
23 the same in my view.

24 CHAIRMAN OMAS: I will allow it.

25 BY MR. STRAUS:

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/] 1148

1 Q Well, I think the question was answered
2 anyway. In 2C, Mr. Mitchell, you say the changes
3 cannot be made by the Rate Commission. What changes
4 did you mean there?

5 A Okay. You have to understand that this is a
6 general presentation to an audience of envelope
7 manufacturers, and so it is a very general statement.
8 What I mean is that it is very difficult for the Rate
9 Commission to look at a set of rates or a mail
10 classification structure, and initiate changes itself.

11 It does have the right to initiate mail
12 classification changes, but quite often those get
13 rejected by the Postal Service, and quite often we do
14 not have the cost analysis necessary to proceed with
15 them without the help of the Postal Service.

16 So all I mean there is that it is very
17 difficult for the Rate Commission to take the initiative
18 to do these things.

19 Q Please look at page two of Attachment B.

20 A Okay.

21 Q Your Number 9 indicates that in Docket R71-
22 1, piece rates, came into existence. Was the
23 introduction of piece rates a cost-based change to the
24 periodical rates?

25 A I believe it was.

[C2004-1

Tr. 3/ 1149

1 Q And when Congress added exe (phonetic) value
2 in 1976, assuming that was a change rather than a
3 codification of an existing policy, was that cost-
4 based?

5 A No, it wasn't. It was never intended to be
6 cost-based.

7 Q And then in Number 11, you talk about the
8 per piece editorial discount came into existence. Was
9 that cost-based?

10 A No, it wasn't.

11 Q Is the carrier rate a cost-based rate?

12 A A carrier route discount?

13 Q Yes.

14 A I think it was.

15 Q Is the bar code discount a cost-based
16 discount?

17 A Yes.

18 Q Is the pallet discount today inadequate as
19 you may think it a cost-based discount?

20 A I think it is stretching matters to refer to
21 it as a cost-based discount. It has strange
22 characteristics. I said in an interrogatory response
23 to you that my definition of cost-based was that the
24 costs were known and recognized, and that a mark-up
25 over costs was selected on a defensible basis.

[C2004-1

Tr. 3/ 1150

1 And I don't think that there is a defensible
2 basis for the structure of the current pallet discount
3 even though it does refer to costs in the process.

4 Q Well, pallets are less expensive to handle
5 than sacks, right?

6 A Yes, they are.

7 Q And the pallet discount recognizes some of
8 that cost difference doesn't it?

9 A Yes, it does.

10 Q And in Number 13, little paragraph 13 on
11 page 3 of that presentation, you refer to the cost
12 coverage in the 2000 case for periodicals, and explain
13 that the coverage for editorial is 82.3 percent, and
14 the coverage in advertising is 125.6, from which you
15 concluded that the editorial content is being handled
16 well below costs. Do you object to that?

17 A No, I don't. There is nothing in our
18 complaint that deviates from that.

19 Q So therefore you don't object, even if the
20 hundred percent editorial publication can be mailed
21 for rates lower than costs?

22 A Congress is the one that said that exe
23 (phonetic) value should be recognized. I think that
24 this is a way of recognizing that exe value, and I
25 believe it is an acceptable way, and I have no

[C2004-1]

Tr. 3/ 1151

1 personal problem with it.

2 Q Does pricing periodicals that are a hundred
3 percent editorial send proper price signals?

4 A In what respect?

5 Q In the respect that you use --

6 A No, I think it is a very poor placed signal.
7 I think I have many examples of bad characteristics of
8 that price signal in my testimony.

9 Q And therefore would it also be your
10 conclusion that it is inefficient to price a hundred
11 percent editorial products below costs?

12 A I believe that it prevents many changes that
13 would be an improvement in efficiency. Yes, I think
14 it is an inefficient rate structure, and I don't think
15 it is accomplishing anything.

16 Q But you said that you don't object to it?

17 A Are we talking -- I'm sorry if I got lost.
18 Are we talking about whether or not we have a lower
19 market on editorial or whether or not we have a flat
20 editorial rate?

21 Q Whether we have editorial content being
22 handled well below costs, to use your words? I asked
23 if you objected to that.

24 A No, I don't.

25 Q Despite the fact that it sends poor price

[C2004-1

Tr. 3/ 1152

1 signals, and it is inefficient?

2 A Okay. As soon as you said sending poor
3 signals, I began to think of the flat editorial rate
4 and I am sorry for that. I guess the signal that it
5 sends is that if you are a publisher and you add
6 editorial pages, the increase in your rate is going to
7 be less than the increase in postal costs.

8 But I don't view that as an unacceptable
9 signal. I think that is implied when you make a
10 decision to give a lower cost coverage on the
11 editorial. So I don't have any problem with that
12 signal.

13 Q So in that case, because Congress has
14 directed editorial -- has directed that that special
15 attention or special rate concession be given for
16 editorial content, because of that policy, you don't
17 disagree with the concept of editorial being carried
18 below costs, notwithstanding the price signals and
19 the inefficiencies; is that right?

20 A I think that's right.

[C2004-1

Tr. 3/] 1162

13 MR. STRAUS: In response to Question 25, you
14 decline to use the word "penalty," which we put in the
15 question, because your proposition, you say, is that a
16 rate ought to recognize the costs of the mail
17 involved. You don't mean to say, do you, that the
18 rate for every single piece of mail must recognize the
19 cost for that single piece of mail?

20 MR. MITCHELL: Well, excluding all of the
21 questions that you have raised about ECSI value, not
22 every piece, no. You know, we have some averaging
23 certainly left in the rates that we have proposed in
24 the complaint.

[C2004-1

Tr. 3/ 1164

4 MR. STRAUS: And this concept of making
5 changes over time is addressed in your third paragraph
6 where you say, "Even if changes --" I guess you mean
7 changes in the way mailers prepare their mail "-- are
8 not made immediately, the new rate structure will
9 inform future decisions." What happens in the
10 meantime to people who have a 50 or 70 or 80 percent
11 rate increase staring them in the face if the changes
12 aren't made immediately?

13 MR. MITCHELL: The playing that I have done
14 that yielded rate increases of that magnitude in
15 general involved a very, very small number of pieces
16 per bundle and a very small number of pieces per sack,
17 which means that those publications are being very
18 heavily subsidized. Now, when you have an incredibly
19 small number of pieces per sack and pieces per bundle,
20 personally I think you're in a position to make some
21 changes immediately. So I think some of the highest
22 rate increases may be some of the people who are in a
23 position to make some changes immediately as well as
24 plan for the future. So I meant for the planning for
25 the future to be an added dimension to the situation.

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/] 1165

1 not necessarily the primary dimension.

[C2004-1

Tr. 3/] 1183

18 Q You've already testified many times, and I'm
19 sure I won't get any disagreement with you, that the
20 periodicals rates today are not cost based. Is that
21 fair?

22 A Basically, it's fair, but I think you can
23 certainly point to elements of periodicals rates.
24 We've paid a lot of attention to costs and periodicals
25 rates over a period of a long time. Starting in 1971

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/ 1184

1 when we introduced piece rates, and all we had was
2 pound rates, when we put in the presort discounts,
3 when we built the zones, we've paid an awful lot of
4 attention to rates in an awful lot of places, but I'm
5 just saying we can do an awful lot better.

6 Q In response to Question 41, you say that as
7 you define the term, periodicals rates are not market
8 based. Is there anything that you can say they are
9 based on? Are they simply arbitrary if they are not
10 cost based or market based?

11 A Well, I've certainly not said that they are
12 arbitrary, and I think I just explained. I explained
13 what I meant by market based, I explained what I meant
14 by cost based, and I just got through explaining that
15 over a period of 33 years we have made extensive
16 adjustments to periodicals, and I think all of them
17 have been based on costs. Now, that doesn't mean that
18 the current situation is extremely good, but it
19 certainly means that we worked hard. You know, we've
20 introduced four presort levels. We've shifted the
21 balance between pieces and pounds. We've put in a
22 destination SCF rate. We've put in a DDU rate. We've
23 put in a saturation rate. We've put in bar code
24 discounts. We've put in bar code discounts different
25 for letters than we have for flats.

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/] 1185

1 It's certainly true that we have done a lot
2 of things in periodicals, and we've done cost work to
3 support every single one of them.

4 Q So is it accurate to describe your position
5 as that periodicals rates are cost based but not
6 sufficiently cost based?

7 A Yes.

8 Q Is the five-digit presort rate cost based?

9 A If you're talking about difference between
10 the three-digit and the five-digit rate, the way I
11 think of the five-digit discount is that I look at the
12 three-digit rate as a reference, and I find the cost
13 difference between three digit and five digit, and I
14 recognize that cost difference in the rate. And I
15 think the answer, if you look at it in that way, is
16 yes.

17 Q Is the rate difference between three digit
18 and five digit less than or greater than the cost
19 difference?

20 A We could look up the details of the current
21 rates. I would point out that they do present
22 difficulties because they came in as a settlement and,
23 therefore, that they don't necessarily reflect
24 Commission costing decisions. But my recollection is
25 that on a three digit versus five digit that the

[C2004-1

Tr. 3/] 1186

1 Postal Service passed through 100 percent of its cost
2 estimate in the case. I could be wrong, but I think
3 that on the basic presort levels, that they were
4 sitting right at 100 percent.

5 Q If it were significantly higher than 100
6 percent, would that be problematic?

7 A We could go through and discuss -- the
8 three-digit presort rate was a new creation just a
9 couple of rate cases ago, and whether or not we have
10 fully adjusted to the new level, I'm really not sure.
11 In other words, we de-averaged the basic rate and the
12 five-digit rate and created the three-digit rate. So
13 there is a possibility that we still have some
14 movement to make to get toward 100 percent, and one
15 would have to be clear about whether we should use
16 Commission costs or Postal Service costs, but I think
17 we have tried, "we" being some kind of a corporate
18 "we," we have tried very hard to honor the costs on
19 those presort differences.

20

21

22

23

24

25

[C2004-1

Tr. 3/] 1211

24 Q In Question 84, we asked whether all work-
25 share discounts should be equal to avoided costs, and

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/ 1212

1 you responded, as you have here this morning, that
2 blanket rules are dangerous, and you prefer not to
3 engage in them. But the question didn't ask you,
4 should all work-share discounts be equal to avoided
5 costs, or should none of them; it was should all of
6 them. Is your answer no, that you're not willing to
7 make that blanket assertion that all should be equal
8 to avoided costs?

9 A No. I'm not willing to make a blanket
10 assertion.

11 Q So the answer to Question A is no.

12 A Okay. It's no.

13 Q Therefore, there may be times when it is
14 appropriate to deviate from avoided costs, may be
15 times.

16 A And I think my answer identifies a range of
17 considerations, many of which could be involved in
18 deviating from avoided costs.

19 Q Please look at Answer No. 86.

20 A Okay.

21 Q Again, I guess I'm having trouble with how
22 you're accounting for a noncost factor such as ECSI
23 value. When you say in the last sentence, "and if
24 account is taken of the benefit given to editorial
25 matter," is that, again, where you're saying let's

[C2004-1

Tr. 3/] 1213

1 take the median kind? You're not talking about
2 heavily editorial or heavily advertised but taking out
3 of consideration the fact that there is ECSI value,
4 then there's implicit equal-cost markups.

5 A Yes.

[C2004-1

Tr. 3/] 1214

12 Q In Question 89, we asked you about, again, a
13 hypothetical, that if the Commission should find that
14 publishers of small weekly periodicals have no choice
15 but to mail their product in five-digit sacks in order
16 to obtain reasonable service, should the Commission
17 take that finding into consideration in assessing your
18 proposal, and if so, how? I think that the first
19 question is susceptible to a yes or no answer, and I
20 think your answer is no, that they should not take it
21 into consideration, but could you tell me if I'm
22 correct or incorrect?

23 A If you mean by taking it into consideration
24 to mean that we should neglect that those costs exist
25 and have them all paid by someone else, then I don't

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/ 1215

1 believe it should be taken into consideration.

2 Q Well, it's one thing to deny that they exist
3 and another thing to figure out what to do about them.
4 Just on the second part, if the Commission were to
5 say, yes, those costs exist, but we just think, for
6 policy reasons, they ought to be borne by others, you
7 would disagree. You would think that that would be
8 inappropriate.

9 A We have here a national postal service which
10 is owned by the nation. Now, I'm willing to assume
11 that they are doing the best job possible of handling
12 all of the mail technically efficiently, but that
13 Postal Service that we all own has a behavior. It
14 does, in fact, have some costs that it draws in from
15 the rest of the economy. Every time it hires a
16 person, that's a person that can't work somewhere else
17 and do something else. So that Postal Service does
18 have some costs, and I'm saying that those costs need
19 to be recognized in the rates.

20 I don't understand why someone should be
21 able to say, "Gee, I've found out that if I prepare my
22 mail like this, which has an awful a lot of costs
23 associated with it, I've found out that I get a little
24 bit of value from it, and since I don't have to pay
25 for it, let's do it that way." I don't understand why

[C2004-1

Tr. 3/ 1216

1 that should exist.

2 Q In Question 91, we asked you about the
3 Alaska air costs. Your counsel objected to the
4 question. The presiding officer decided that it
5 should be answered, and your answer says that you
6 respect the decision, you don't agree with the
7 characterization of the costs as institutional, and
8 you believe it's a policy-based exception by the
9 Commission. I don't think you quite answered the
10 question about whether you agree with it or not,
11 though. Do you have an opinion?

12 A I think that I said here that I cannot agree
13 that volume-variable costs are properly characterized
14 as institutional. Now, it's possible that I would
15 have reached the same decision through a different
16 path.

17 Q Would you have been more comfortable if
18 those costs were considered to be attributable costs
19 for the parcel class and were paid by other parcel
20 mailers rather than being treated as institutional
21 costs and paid by whoever pays institutional costs?

22 A No. I don't think I would have done that.

23 Q The other question is, would you have been
24 more comfortable with that result, if they had called
25 the cow's tail a tail but treated it the way they did?

Tr. 37 1217

1 A In terms of outcome, I would not have been
2 more comfortable.

3 Q You say that it was a policy-based
4 exception. Do you know what that policy was?

5 A I think the policy is that we're going to
6 deliver, that we have made a policy decision to
7 deliver parcels to people in Alaska as though they
8 existed on highways with normal transportation
9 available, even though we have no choice but to carry
10 it there by air.

11 Q In Question 94, we asked you about a
12 quotation in footnote 41 of your testimony, a
13 quotation by the Commission that carries over from
14 page 55 to 56. Do I read this answer correctly, that
15 you disagree with the Commission's statement that you
16 quote there?

17 A I'm sorry. Was there a Commission statement
18 -- with respect to the quotation in footnote 41?

19 Q After citing El Cono, et al., you go on to
20 say, "Also the Commission said," and you have a quote
21 about productivity cited to the decision in MC-95-1.
22 I read your answer as disagreeing with that quote.
23 I'm just asking whether that's, in fact, the case.

24 A "The concept of work sharing has been widely
25 applied and is credited with helping the Service to

[C2004-1]

Tr. 3/ 1218

1 attract expanding volumes of mail." Well, certainly,
2 if you attracted expanded volumes of mail, which a lot
3 of analysis shows has resulted from the advent of work
4 sharing, that should increase your productivity due to
5 scale effects in general, but my answer to this
6 interrogatory was perhaps a little narrower than that.

7 If you have a productivity for handling
8 sacks, a technical productivity, and you have a
9 productivity for handling pallets, and you have a
10 productivity for handling pieces, just because someone
11 buys more sacks and fewer pallets or more pieces and
12 more pallets, just because they change their mix
13 doesn't change your productivity for anything you're
14 doing. You're still just as productive at sacks,
15 maybe fewer of them, maybe more. You're still just as
16 productive at pallets, maybe fewer, maybe more.
17 You're just as productive at handling pieces.

18 So if your productivity in every single
19 operation that you have hasn't changed, you can't
20 change your overall productivity simply because
21 somebody buys a little more of one of those areas and
22 less of another.

[C2004-1

Tr. 3/] 1241

21 Q I'm not asking you specifically about size.
22 What I'm curious to know is whether you have talked
23 with any of the publishers that you've worked with, or
24 with your clients in this case, about what is involved
25 when a publisher or a printer decides to move from

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 3/ 1242

1 sacks to pallets for mail preparation.

2 A I don't know what's involved.

C2004-1

TW, Conde Nast, Newsweek, RDA, and TV Guide

Halstein Stralberg
(TW et al.-T-2)

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-2. Is it your understanding that increasing levels of worksharing in the past, such as application of bar codes, increased drop shipping and increased palletization, did not reduce the Postal Service's Periodicals processing costs to the extent that should have been experienced? If so, please state all of the factors that, in your view, produced this result.

ABM/TW et al.-T2-2. While it is unclear to me precisely what you mean by "the extent that should have been experienced," I can offer the following comments.

In the case of barcode application by mailers, I believe it may be true that the savings produced often have been less than the discounts offered, for reasons that include the following:

- (1) unlike other worksharing discounts, some barcode discounts have been set with a passthrough much higher than 100% of projected cost savings;
- (2) many pre-barcoded flats are sorted manually, often to a greater extent than assumed in the cost studies used to justify the discounts;
- (3) placement of OCR's on all flats sorting machines and advances in OCR technology have reduced the importance of pre-barcoding; and
- (4) address quality problems may reduce the effectiveness of barcodes.

On the other hand, dropshipping and palletization are both effective means to bypass postal operations and thereby avoid costs. The value of these forms of worksharing has never been fully recognized in the Periodicals rate structure.

My testimonies in Dockets No. R90-1, R94-1, R97-1 and R2000-1 documented and examined possible explanations for the unusually large increase in Periodicals costs that started in FY87 and continued until at least very recently. I demonstrated that those cost increases occurred in spite of numerous advances in mail processing technology that had been expected to reduce costs, and in spite of extensive efforts by Periodicals mailers to avoid postal operations through worksharing.

[C2004-1

Tr. 1/]

ABM/TW et al.-T2-2
Page 2 of 2

My present testimony does not address the reasons for the current high costs of postal operations. But I believe that, with an eighteen year history of increasing costs, Periodicals mailers and the Commission must conclude that the best hope for cost containment and cost reduction is to bypass as many postal handling and transportation operations as possible, leaving to the Postal Service the job it does best, namely to deliver the mail. The cost analysis presented in my testimony and the corresponding rate recommendations presented by witness Mitchell are intended to provide incentives that will minimize the combined mailer and Postal Service costs.

To speculate that increased dropshipping and palletization somehow has caused the increase in Periodicals costs turns reality upside down. When Periodicals bypass a postal operation they cause no cost at that operation and can be charged with no costs by the Postal Service's accounting system.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-3. As a general matter, would Time Warner's Periodicals postage bill benefit from a shift in cost responsibility from pieces to pounds? Explain your answer.

ABM/TW et al.-T2-3. The answer to this question might depend on exactly how the piece and pound rates are structured. However, an average Time Warner Periodical's piece weighs more than the average Outside County piece, and so it can probably be said that as a "general matter" Time Warner would not benefit from a shift in cost responsibility from pieces to pounds.

More precisely, based on an accumulation of postal statement data for Time Warner's Periodicals, its average piece in calendar year 2003 weighed 8.07 ounces. According to the RPW piece and weight statistics reported for FY03, an average Outside County Periodicals piece weighed 7.06 ounces, while an average regular rate piece weighed 7.89 ounces.

Time Warner et al.'s proposal in this case is to shift some cost responsibility away from both pieces and pounds, by properly identifying the costs of bundles, sacks and pallets. At the same time, it is proposed to make pound rates more cost based by extending the zoning to editorial matter, while maintaining the overall benefit given to editorial matter.

[C2004-1

Tr. 1/]

ABM/TW et al.-T2-11
Page 1 of 1

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-11. With respect to your testimony at page 17, lines 1-3, please provide your understanding of the type of Periodicals mail that is drop shipped in sacks.

ABM/TW et al.-T2-11. I am not aware of any statistic that provides insight in the characteristics of sacked Periodicals that are dropshipped. I would assume, however, that the category includes many local or regional publications, as well as some sacks of time sensitive publications that are airlifted.

**RESPONSE OF WITNESS STRALBERG TO ABM/TW Et Al.-T3-42,
REDIRECTED FROM WITNESS GORDON**

ABM/TW et al.-T3-42. Please examine the list of publications produced by the complainants that is provided by witness Stralberg (redirected) in response to ABM/TW-T1-3. For each publication, list its total print run and the number of printing plants at which it is printed.

RESPONSE:

The following publications use more than one printing plant. The number of plants used is indicated in parentheses. To the best of my knowledge, all other complainants' publications use a single plant.

Time (5), Sports Illustrated (6), People (5), Entertainment Weekly (3), Newsweek (6), TV Guide (7).

The four tables below give the total print order for a typical issue, for those publications for which the information has been provided to me. Please note that the volumes given are for copies printed, whereas the volumes I provided in response to ABM/TW-T2-1 refer to mailed postal pieces. For example, in the case of Time for Kids, the mailed piece volume is 114,686. Each piece is a "firm bundle" containing the copies that go to one classroom. Total copies printed is 3,518,675.

Time Inc. Weekly Publications	
Title	Print Order
Time	4,479,537
Sports Illustrated	3,732,874
People	5,112,054
Entertainment Weekly	2,337,434
Time for Kids	3,518,675

[C2004-1

Tr. 1/]

Transworld Publications	
Title	Print Order
BMX	47,035
Motocross	153,206
Ride BMX	78,208
Skateboarding	285,642
Snowboarding	195,506
Surf	75,317

Time Inc. Monthly Publications	
Title	Print Order
Baby Talk	2,013,336
Big Picture	667,807
Business 2.0	685,702
Coastal Living	919,966
Cooking Light	2,101,134
Field & Stream	1,632,350
Fortune	1,071,390
Golf	1,637,812
Health	1,770,818
In Style	2,529,130
Money	2,316,009
Motor Boating	185,643
Outdoor Life	1,054,436
Parenting	2,434,642
People en Español	708,920
Popular Science	1,737,691
Progressive Farmer	623,206
Real Simple	2,346,822
Saltwater Sportsman	209,865
SI for Kids	1,071,437
Ski	524,420
Skiing	467,286
Southern accents	557,303
Southern Living	2,971,511
Sunset	1,663,641
Teen People	2,137,726
This Old House	1,196,820
Yachting	159,907

[C2004-1

Tr. 1/]

Other Publications	
Title	Print Order
Newsweek	3,627,500
Budget Travel	659,237
TV Guide	10,076,268
Reader's Digest	12,442,951
Family Handyman	1,326,408
American Woodworker	462,445
RD Large Type	701,955
Selecciones	434,885
Taste of Home	4,741,583
Birds & Blooms	2,168,500
Quick Cooking	3,177,500
Country	1,230,917
Country Woman	1,524,000
Light & Tasty	1,920,167
Reminisce	1,128,833
Reminisce Extra	344,417
Crafting Traditions	320,017
Country Discoveries	346,000
Farm & Ranch Living	421,250
Country Extra	333,033
DNR	19,000
Footware News	19,500
Supermarket News	39,000
Home Furnishing News	23,500
Details	581,000
Children's Business	15,000
Executive Technology	36,800
In Furniture	26,000
W Magazine	546,000
Women's Wear Daily	48,000
Allure	1,434,545
G.Q.	1,191,932
Gourmet	1,121,414
Self	1,998,619
Vogue	1,736,172
Bon Appetit	1,574,057
The New Yorker	1,077,390
Glamour	3,604,188
Vanity Fair	1,596,233
Modern Bride	818,315
Brides	717,324
Traveler	848,499
Teen Vogue	1,270,788
House & Garden	

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-11. On page 6, line 16 you state, "[u]se of pallets generally causes fewer costs than if the flats are entered in sacks." In your analysis, did you find any circumstances or instances in which flats on pallets cost more than comparable flats in sacks, at a given presort level? If so, please describe those circumstances or instances.

USPS/TW et al.-T2-11. A pallet generally offers cost advantages because it can replace not one but many sacks. But this depends of course on the volume of mail loaded on a pallet versus the volume in each sack. If, for example, a 5-digit pallet weighing 250 pounds is entered far from its destination, e.g. at the originating ADC, then, according to the pallet unit cost estimates in Exhibit B of my testimony, such a pallet would cost the Postal Service about \$44, and five fifty pound sacks carrying the same volume would in fact cost less.

Generally, it does not make sense to make up a pallet to a given destination unless one has sufficient volume going to that destination.

[C2004-1

1 III. COST CHARACTERISTICS OF PERIODICALS FLATS MAILINGS

2 Traditional rate design implicitly assumes that Periodicals costs are incurred on either a
3 per-piece or a per-pound basis. Considerable arguments have been made before this
4 Commission regarding which costs are piece related and which are pound related.
5 However, as explained in the following, some costs are neither.

6 Periodicals flats are prepared by mailers in presorted bundles and usually placed either
7 in sacks or on pallets provided by the Postal Service. The Postal Service must perform
8 various handlings on these sacks/pallets, often including transfers through multiple
9 facilities, until they are emptied of their contents and can be recycled for further use.
10 The Postal Service then must handle the bundles that were emptied out of the sacks
11 and pallets, until the bundles have been opened – after which it must handle the
12 individual pieces that were inside the bundles through additional sorting and delivery
13 operations.

14 Costs incurred handling sacks and pallets are better thought of as per-sack and per-
15 pallet costs than as per-piece or per-pound costs. Similarly, costs incurred in sorting
16 bundles are best thought of as per-bundle costs. Recognizing the characteristics of
17 sacks, pallets and bundles that affect postal costs, as well as the characteristics of
18 individual pieces that affect costs, and pricing these items in accordance with costs will
19 remove anomalies in the current rate structure and provide mailers with much better
20 pricing signals.

21 This section discusses the Periodicals costs that are associated with sacks, pallets,
22 bundles and pieces, as well as costs that are mostly weight related.

23 1. Sacks

24 Sack related costs include the cost of sorting sacks, either on mechanized sack sorters
25 or manually, loading and unloading sacks from trucks, moving them across postal
26 platforms and workroom floors, opening sacks, shaking out their contents, putting aside
27 empty sacks and recycling them for further use by mailers. Generally, these costs
28 depend on the number of sacks being handled, each sack's presort level and where it is

1 entered into the system relative to its final destination. The number of pieces inside a
2 sack has little impact on the cost of handling it.

3 A cost based rate design should include per-sack charges that are consistent with the
4 actual costs of handling sacks, which generally vary from \$1 to over \$3 each. Such
5 charges would, in my opinion, quickly reduce the fairly widespread practice among
6 Periodicals mailers of sending sacks with only one or a few pieces in them through the
7 postal system. A cost based sack charge may not seem unreasonable if the sack
8 contains 40 pieces, but it would present a strong disincentive to mailing a sack with only
9 one piece.⁴

10 2. Pallets

11 Pallets incur costs as they are moved on or off trucks, across platforms and across the
12 workroom floor to the bundle sorting area where the pallet's contents are distributed. If
13 the bundle sorting operation is mechanized, the pallet is "dumped" by a mechanized
14 pallet dumper. Finally, empty pallets, like empty sacks, are recycled for additional use
15 by mailers.

16 Use of pallets generally causes fewer costs than if the flats are entered in sacks. And
17 pallets with finer presort (e.g., 5-digit pallets) cause fewer bundle handling costs than
18 less presorted pallets. But because mailers may have a limited quantity of mail to a
19 given 5-digit or 3-digit zone, pallets with finer presort may also end up having less
20 volume. To avoid having to handle too many small pallets, the Postal Service imposes
21 minimum weight requirements. For destination entered pallets, the current minimum is
22 250 pounds. But some facility managers have indicated that they would be happy to

⁴ With appropriate pricing, there is no need to prohibit this practice. A mailer may have a good reason (e.g., service related) for mailing a single piece or a few pieces in a separate sack. If given correct price signals that require them to bear the costs of choosing such practices, however, chances are that mailers will avoid such practices in almost all cases. It is important to note that the practice of mailing sacks with only one or two pieces in them is not at all limited to small mailers. In fact, I have become aware that it occurs frequently among very large mailers, including Time Inc.

1 receive 5-digit pallets containing considerably fewer than 250 pounds, because such
pallets can be transferred directly to the DDU and require much less bundle sorting than
3 3-digit or ADC pallets.

4 In this case I present per-bundle costs that vary with the presort level of the pallet the
5 bundles come on, and witness Mitchell proposes that bundles be priced accordingly.
6 That by itself could lead to many more pallets than there are today, especially in the
7 absence of pallet minimums, as mailers would find it advantageous to split current 3-
8 digit pallets into smaller 5-digit pallets and current ADC pallets into smaller 3-digit or
9 SCF pallets. But the proposal also includes pricing the pallets themselves in
10 accordance with actual costs, which again vary with the pallet's presort level and where
11 it is entered into the postal system. This way the mailers themselves will be able to
12 figure out how far to go in producing pallets with finer presort, by weighing the higher
13 price of using more smaller pallets against the lower bundle prices that result from finer
14 pallet presort levels.

3. Bundles

16 The Postal Service's current mail flow models, which are used to estimate cost savings
17 produced by presortation and pre-barcoding, do recognize certain costs associated with
18 bundle sorting. But they translate those costs into per-piece costs, dividing them by the
19 average number of pieces per bundle. As a result, even if these models are otherwise
20 accurate, the presort savings they calculate are accurate only for bundles with the
21 average number of pieces, and even then actual savings from putting pieces in a
22 presorted bundle depend on whether those pieces would have been sorted by an
23 AFSM-100 machine or manually had they not been in the bundle, on whether they are
24 pre-barcoded or not, etc.

25 To avoid receiving bundles with too few pieces, where the added costs of handling the
26 bundle might outweigh the piece sorting costs avoided by the bundling, the Postal
27 Service establishes minimum numbers of pieces that presorted bundles must contain.

1 The current bundle minimums are six pieces for Periodicals flats and ten for Standard
flats. Postal officials have been known to argue that both minimums should be raised.⁵
3 But whatever new bundle minimum is imposed, the one thing we can be sure of is that
4 *it will not be optimal for all circumstances.* The "optimal" bundle minimum may depend
5 on whether the pieces are machinable, whether they are pre-barcoded, presort level of
6 the bundle, whether it is entered on a pallet or in a sack, and other factors.⁶

7 I believe therefore that the Postal Service would be better off simplifying its ever more
8 complicated mail preparation regulations, abandoning current minimums and simply
9 letting mailers figure out how many bundles to make by pricing *both bundles and pieces*
10 in accordance with actual costs. To assist in the development of such a pricing
11 structure, I have estimated the per-bundle costs for each combination of bundle and
12 container presort level, as well as the piece handling costs for different presort levels
13 and piece characteristics.

14 In reviewing the bundle related costs indicated by the model, I noticed that many of
those costs in fact do not depend on the number of bundles but rather on the bulk of
16 the bundles. Since bulk is more closely correlated with weight, I believe such costs are
17 more appropriately called weight related. These "weight related" bundle costs occur
18 when a hamper or other USPS container, after being filled with bundles in a bundle
19 sorting operation, is moved either to another bundle sort or to a piece sorting operation,
20 in either the same facility or a different facility. As in LR-I-332, my model assumes that
21 such USPS containers hold an average of 52.45 bundles each, and uses this to
22 translate the costs of moving the containers into "per-bundle" costs. However, these

⁵ In a December 11, 2003 Federal Register notice, 68 Fed. Reg. 69066, the Postal Service proposes raising to 15 the minimum number of pieces for certain categories of 5-digit Standard flats bundles.

⁶ By "optimal bundle minimum" I mean the minimum number of pieces at which making up an extra bundle would save postal costs. Assume, for example, that a 5-digit bundle containing 30 pieces is placed on a 3-digit pallet. Some of the 30 pieces are to the same carrier route. How many pieces must there be to the same carrier route before it is worthwhile making a separate carrier route bundle? The answer to this question depends on a number of factors, including sorting technology and whether the pieces have a barcode.

1 postal containers are generally moved when they are full. They will fill up faster if the
2 flats are thick or there are many flats per bundle. These costs are therefore primarily
3 determined by cube, which tends to vary in closer proportion with weight than with the
4 number of pieces or bundles, and so it is more appropriate to classify them as per-
5 pound costs.

6 In the AFSM-100 environment, non-carrier route flats bundles are taken to a "prepping"
7 operation where the bundles are broken and pieces placed on "ergo carts" in a manner
8 designed to facilitate subsequent loading into the AFSM-100. This operation is
9 currently referred to as MODS operation 035. It tends to be performed also for flats that
10 will not be sorted on the AFSM-100. In the pre-AFSM-100 environment, the process of
11 cutting flats bundles and preparing the pieces for sorting was often integrated into the
12 piece sorting operations and indistinguishable from piece sorting.

13 I unfortunately do not have access to any productivity estimates for the MODS 035
14 operation. Nor was this operation or any equivalent operation included in the LR-I-332
15 model from which I have developed my current model of flats mail flows. Nor is there
16 any reference to it in the flats mail flow model described in LR-J-61, which was used in
17 R2001-1 to set flats presort and automation discounts. The bundle unit costs shown in
18 Exhibit B therefore do not include the 035 costs. Had I been able to include those
19 costs, the costs of the non-carrier route flats categories in Exhibit B would have been
20 higher relative to the carrier route categories.

21 4. Flats Pieces

22 Current Periodicals rate design takes into account whether non-carrier route flats are
23 pre-barcoded. It also recognizes four presort levels (carrier route, 5-digit, 3-digit and
24 basic). Not recognized is machinability of the mail pieces, even though machinability
25 has become much more important with the advent of the AFSM-100. In this testimony,
26 "machinable" refers to machinability on an AFSM-100. Magazines thicker than 3/4 inch
27 would, for example, be considered non-machinable.

28 The presort rate levels currently recognized are a confusing mix, referring sometimes to

1 the presort level of a bundle and sometimes to the presort level of the container the
bundle is presented in. For palletized flats, the presort rate level is defined by the
3 bundle presort; the presort level of the pallet is ignored, even though it has a major
4 impact on postal costs. For sacked mail, the presort rate level is defined by the bundle
5 presort for barcoded flats and by the sack presort for non-barcoded flats.⁷

6 It leads to much more cost based rates, and is conceptually simpler, to recognize all
7 meaningful combinations of bundle and container presort level, container type,
8 machinability and pre-barcoding. Tables A3 and B3 illustrate all the categories of piece
9 characteristics for which I am presenting estimates of volumes and unit costs.⁸

10 The piece handling costs I estimate refer only to mail processing. Additional per-piece
11 costs are incurred in the delivery function. I also have not attempted to model costs of
12 forwarding or other handlings that do not occur in the normal flow of most flats through
13 the postal system. Note that costs related to bundle sorting are not included in my
14 piece related costs.

15 LR-I-332 also estimates the costs of bundle breakage and presents them as per-bundle
16 costs. I have defined them instead as per-piece costs. Most of the extra costs incurred
17 when a bundle breaks prematurely are due to the additional piece sorting required for
18 the previously bundled pieces. Since these costs are proportional to the number of

⁷ The inconsistent definitions of presort rate categories have led to some striking rate anomalies. Here is, perhaps, one of the worst. Consider a 5-digit flats bundle in an ADC sack. If the flats are pre-barcoded, their presort level is determined by the bundle presort, i.e., it is 5-digit and they pay the 5-digit automation rate (22.6 cents/piece). If the flats are not barcoded, their presort level is determined by the sack presort, i.e., it is basic, and they pay the non-automation basic rate of 37.3 cents/piece. Their reward for barcoding is therefore 14.7 cents/piece, even though the Commission approved a barcode discount for basic flats of only 4.8 cents/piece. Moreover, the actual cost differential between barcoded and non-barcoded pieces in this example is 0.3 cents if the pieces are non-machinable, and about 1.3 cents if they are machinable. See Table B3a.

⁸ These categories were present also in the Postal Service's R2000-1 and R2001-1 mail flow models. But in both cases the USPS witnesses combined the more detailed set of categories into the much more limited number representing current presort/automation rate levels.

1 pieces that were in the broken bundles, rather than the number of broken bundles, I
2 consider them to be per-piece costs.

3 Some of the per-piece costs calculated by my model, and in LR-I-332, are incurred
4 while moving pieces between piece sorting operations and to the DDU. These
5 movements typically involve rolling containers that are filled up with flats trays and
6 moved when they are full. Since thick flats fill up trays and rolling containers faster than
7 thin flats, these costs are more appropriately viewed as weight related. Exhibit B
8 identifies these weight related "per-piece" costs separately. Witness Mitchell does not
9 use them in his design of piece rates, since they are more appropriately covered by
10 pound rates.

11 5. Weight Related Costs

12 Which Periodicals costs are piece related and which are pound related has been
13 debated for a long time and never fully resolved. Since R87-1 the Commission has
14 required 60% of regular rate Periodicals revenue to come from the piece rates, based
15 on an assumption that approximately 60% of the costs are piece related.⁹

16 Having concluded that some costs are related neither to pieces nor pounds but rather
17 to the sacks, pallets and bundles into which a flats mailing is prepared, and that a
18 portion of the postal revenues should be derived from charges on these items, it is
19 necessary to determine how the remaining costs can most properly be divided between
20 pieces and pounds.

21 First, it should be noted that, for Periodicals, bulk (measured in cubic feet) is probably
22 much more of a cost driver than weight. It is the bulk that consumes space on trucks
23 and in trays, hampers and other containers used to transport these flats. The faster
24 that trays, hampers and other containers are filled up, the sooner they must be

⁹ Since the merger of the three Outside County subclasses in Docket No. R2000-1, the assumption that 60% of costs are piece related is applied to the combined subclass, whereas before it was applied to regular rate Periodicals.

1 removed and replaced. However, since density (weight/cube) is fairly uniform, at least
2 among magazines, it is reasonable to continue to treat pounds, rather than cubic feet,
3 as a major cost driver.

4 Transportation costs are generally considered pound related. Delivery costs clearly are
5 affected both by weight and by the number of pieces delivered. Regarding mail
6 processing costs, I pointed out in the two preceding sections that more than half of the
7 costs that the mail flow model identifies as per-bundle costs would more appropriately
8 be considered weight related, and that a portion of the per-piece costs identified by the
9 model are also, strictly speaking, more weight than piece related.

[C2004-1

Tr. 1/ 210

8 Q On the third page of that response, you
9 explain that three Time Warner publications,
10 Parenting, Health, and Baby Talk, are co-mailed with
11 magazines not published by Time, Inc.

12 A Yes. That's my understanding.

13 Q Do you know why those three are co-mailed?

14 A I really don't.

15 Q In the next paragraph, you do on to explain
16 that supplemental mailings tend to have a higher use
17 of sacks than main mailings. Why aren't those
18 supplemental mailings co-mailed or co-palletized?

19 A Well, it may be they should be. It appears
20 to me, from what I've heard, that if, for example,
21 these proposed rates were to take effect, there would
22 be a tendency for printers and mailers to try and co-
23 mail more supplemental mailings.

24 Q I understand that's your position about
25 these rates, but that wasn't my question. My question

[C2004-1

Tr. 1/] 211

1 is, under today's rates, whey aren't they co-mailed or
2 co-palletized?

3 A Well, I'm not really a specialist on that.
4 I can't really speak for the printers and the mailers
5 and the decisions they make.

6 Q These are Time, Inc., publications.

7 A These are Time, Inc., publications, yes.

8 Q But you can't explain why certain Time,
9 Inc., publications are co-mailed and others are not.

10 A I cannot.

11 Q Please look at the part of your answer that
12 runs from the bottom of page 3 to the top of page 4.
13 You say that four publications of Fairchild are co-
14 mailed. Are these co-mailed exclusively with each
15 other, or are there other publications in the pool?

16 A My understanding is they are co-mailed
17 exclusively with each other.

18 Q So it would be the co-mailing of a single
19 publisher's periodical.

20 A Exactly.

21 Q Would you agree that with a co-mailing
22 consisting of the publications of a single publisher
23 that the scheduling problems that might occur if you
24 have multiple publishers would be eliminated?

25 A I assume so.

[C2004-1

Tr. 1/] 212

1 Q In the next part of your answer, in the
2 middle of page 4, where you're addressing Reader's
3 Digest, you explain, at the very end of that
4 paragraph, that you did not analyze two Reiman titles
5 for which mail-dot-dat files were not available. Why
6 couldn't you do the analysis without mail-dot-dat
7 files?

8 A I would have had to have some other kind of
9 data. I used the data I got from Reader's Digest.

10 Q Were the other data that you would have had
11 to use available to you?

12 A No.

13 Q They were not given to you.

14 A They were not given to me.

15 Q Did you ask for it?

16 A Through the cooperation of Time, Inc., we
17 asked Reader's Digest for data on all of their
18 publications. This is what they came up with.

19 Q Would it have been very difficult to
20 calculate the postage at the proposed rates without
21 mailed-dot-dat files?

22 A Yes. In fact, it would.

23 Q Would it be impossible?

24 A You would need to -- that information in
25 some other format.

[C2004-1

Tr. 1/ 213

1 Q But you would need information that
2 typically isn't available, wouldn't you?

3 A It typically is not produced. You basically
4 need a count of the sacks and the pallets by entry
5 point and by presort level. Certain information has
6 to be available to the mailers, to those who prepare
7 the mail, but it's not normally generated or reported
8 by the software systems at this time.

9 Q I would like you now to turn to Table TW-2.

10 A Okay.

11 Q Two of the publications listed there, the
12 first and third, are BMX and Ride BMX.

13 A Yes.

14 Q It must be a real niche market.

15 A It's a niche market, yes.

16 Q I notice that those two publications have
17 very little palletization, four percent in the case of
18 BMX and 14 and a half percent for Ride BMX.

19 A Yes.

20 Q I also notice that their postage per piece
21 is rather high, 38 cents for BMX and 42 cents for Ride
22 BMX. Do you see that?

23 A Yes. I agree with that.

24 Q Why aren't these publications palletized?

25 A They are very small publications.

[C2004-1

Tr. 1/] 214

1 Q How small?

2 A I don't remember. I think I provided that
3 information in another interrogatory. I think BMX is
4 about 14,000 pieces.

5 Q Would you accept, subject to check, that BMX
6 is about 17,000, --

7 A 17,000. I will accept that.

8 Q --- and Ride BMX about 18,000?

9 A Yes.

10 Q So these are basically too small to be
11 palletized.

12 A Unless they were to be co-palletized or co-
13 mailed. It's not happening at this time.

14 Q But Time, Inc., co-palletizes or co-mails
15 other publications, doesn't it?

16 A It does some, yes.

17 Q And why doesn't it co-mail or co-palletize
18 these to save money?

19 A Well, I guess, at this time, there has been
20 no reason to. Co-mailing and co-palletizing are
21 fairly new concepts anyway. Maybe they should be, but
22 they are not doing it, and I can't really tell you
23 why.

24 Q But they find it profitable to co-mail or
25 co-palletize other periodicals, don't they, the same

[C2004-1

Tr. 1/ 215

1 company, Time, Inc.?

2 A They are co-mailing and co-palletizing some.
3 It depends on which printer they are at. I believe,
4 actually, the printer for these publications does not
5 offer co-mailing at this time.

6 Q And what printer is that?

7 A I asked somebody this morning. I think it's
8 Brown Printing.

9 Q Is Brown Printing a small printer or a large
10 printer?

11 A I understand it's not small.

12 Q Is it not medium?

13 A I understand it's about medium.

14 Q Let's take a look at Motorcross on TW-2.
15 That shows a rate increase of about 12 or 13
16 percent --

17 A Yes.

18 Q -- to the proposed rates, yet 71 percent of
19 that is palletized. Do you have an explanation for
20 why this periodical that's 70 percent palletized would
21 suffer -- I take that word back -- I don't want to
22 load it -- would face a 12 or so percent rate
23 increase?

24 A Well, I think it is palletized and entered
25 at origin.

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 1/ 216

1 Q Why isn't it drop shipped?

2 A I don't know.

3 Q Wouldn't it save money if it were drop
4 shipped?

5 A It would also cost money to drop ship them.

6 Q I understand, but wouldn't there be a net
7 saving for drop shipping?

8 A Not under the current rates necessarily. I
9 don't know what decisions went into drop shipping or
10 not drop shipping. None of these tiles had drop
11 shipped.

12 Q Aren't there many publications today that
13 are drop shipped and save money by drop shipping under
14 today's rates?

15 A There are, yes. It depends on the percent
16 editorial content, for one thing. If it's a high
17 editorial content, drop shipping is not very
18 profitable at this time.

19 Q Well, the editorial content is 69 percent.
20 If we look at Money magazine on TW-3, the editorial
21 content is about 56 percent.

22 A Yes.

23 Q Is Money magazine drop shipped?

24 A I understand it now is, yes.

25 Q You show only 5 percent to Zones 3 through

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 1/ 217

1 8.

2 A Yes.

3 Q Pretty clearly drop shipped. Right?

4 A As I understand it, certain printers in
5 certain locations offer drop shipping in a pool. I
6 think some magazines have entered those pools very
7 recently. It's an ongoing process.

8 Q In fact, isn't it true that none of the
9 Transworld publications shown on TW-2 are drop
10 shipped, --

11 A None of them are.

12 Q -- but all of the Time, Inc., monthly
13 publications on TW-3 are drop shipped?

14 A I'm not sure if all of them are drop
15 shipped.

16 Q Can you explain why the highest number
17 there, for Zones 3 through 8, is only 12 and a half
18 percent if it's not drop shipped?

19 A Okay. You're referring to -- there are
20 several pages -- you're referring to Table --

21 Q -- Table TW-3 only, yes.

22 A Well, it looks, from those percentages, like
23 they are all drop shipped.

24 Q Just backing up a bit, you said that maybe
25 Motorcross isn't drop shipped because it's high

[C2004-1

Tr. 1/ 218

1 editorial, 69 percent, but if we go over to
2 Skateboarding on TW-2, that's 45 percent editorial,
3 and that's not drop shipped.

4 A None of these publications are drop shipped.
5 I'm not able to provide you with the decision-making
6 process.

7 Q But your speculation that the high editorial
8 for Motorcross --

9 A That certainly would discourage drop
10 shipping, yes.

11 Q But that same speculation wouldn't apply to
12 Skateboarding, would it?

13 A No. It probably has more to do with where
14 they are being printed.

15 Q Now, let's turn to TW-4.

16 A At a table.

17 Q Yes. Are these periodicals drop shipped?

18 A To a considerable extent, yes.

19 Q And the editorial percentage rate is as high
20 as 82.79 percent, doesn't it?

21 A In the case of SI for Kids, yes.

22 Q And Skiing is 63 percent?

23 A Uh-huh. Yes.

24 Q And would you expect that Time, Inc., would
25 drop ship a monthly publication if it didn't save

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 1/ 219

1 money as a result?

2 A No, I don't think so. There may be other
3 reasons. They may decide it's better service, but
4 generally they evaluate each case.

5 Q These periodicals are not especially time
6 value, are they?

7 A I don't think so.

8 Q And so the only reason to drop ship would be
9 to save postage --

10 A Would be to save money, yes.

11 Q -- so that the postage saving was greater
12 than the transportation cost.

13 A Yes, yes.

14 Q Please take a look at Table TW-6, which is
15 the summary data for supplemental mailings of the
16 Time, Inc., monthly publications.

17 A Okay.

18 Q Focus in on the postage cents per piece for
19 Money magazine.

20 A Okay. Current rates?

21 Q From 38.19 cents under the current rates to
22 54.61 cents under the proposed rates. That's a very
23 large increase, and even the 38 cents is a significant
24 number in cents per piece. Can you tell me why this
25 periodical is not palletized on its supplemental

[C2004-1]

Tr. 1/ 220

1 mailing?

2 A I think this is a very low-volume mailing.

3 Q Would you accept that it's 17,000 pieces?

4 A I will accept that, yes.

5 Q Do you know where it's printed?

6 A I'm not sure. I think it's printed in
7 Clarksville, Tennessee.

8 Q By?

9 A By Quebecor.

10 Q Do they do any co-palletizing?

11 A They do. On the main mailings, they co-
12 palletize. They don't do any co-palletizing, I don't
13 think, not to my knowledge. They do a lot of drop
14 shipping.

15 Q Do they do co-mailing?

16 A I don't know. I would assume they do, but I
17 don't know that for a fact.

18 Q Okay. What confuses me here is -- if you
19 compare the volumes with the percentage palletized,
20 there seems to be a relationship. If we just go
21 through it, Cooking Light is 403,000, and it has 86
22 percent --

23 A Yes.

24 Q -- palletized; Southern Accents, 79,000, 13
25 percent; Coastal Living back up to 91,000, 41 percent

[C2004-1

Tr. 1/ 221

1 palletized; In Style, 106,000, 61 percent palletized;
2 then we have Money at 17,000 with nothing; Real
3 Simple, 10,000, with only less than 2 percent
4 palletized; SI for Kids, 17,000, no palletization;
5 Southern Living back up to 82,000, 60 percent
6 palletized; Teen People, 19,000, zero percent
7 palletized.

8 Are these printed at different plants, or
9 are these all printed at the same plant?

10 A I think they are at different plants.

11 Q So is the difference between those that are
12 palletized and not palletized volume related or
13 printing-plant related?

14 A Okay. Let me put it this way. I do not
15 know why decisions are made the way they are made. In
16 the case of Cooking Light, which has a very high
17 volume on the supplemental mailing, I posed that
18 question to Time, Inc., why is it not drop shipped,
19 that kind of volume, and my understanding is, now that
20 they are aware of it, they will probably drop ship it.

21 Q But my question was palletizing, not drop
22 shipping.

23 A Okay. I cannot explain. My understanding
24 is that many of these mailings are put in sacks
25 because that's the way they have always been doing it.

[C2004-1

Tr. 1/] 222

1 Q Let's take a look at Money again, where the
2 current postage is 38.19 cents per piece for the
3 17,000 in the supplemental mailing.

4 A Yes.

5 Q Would you confirm that the main mailing
6 cents per copy for Money is 23 cents?

7 A Yes.

8 Q So there is a difference of about 15 cents
9 per copy.

10 A It's a big difference.

11 Q Does it cost more than 15 cents to work
12 share the supplemental mailing of Money so that it
13 looks a lot like the main file?

14 A I would have to look at those, the main file
15 and the supplemental file, in more detail. There is
16 obviously a big difference in presortation, in
17 palletization, and in drop shipping.

18 Q Co-mailing, in theory, at least according to
19 some of the witnesses for the Complainants, co-mailing
20 can make the supplemental mailings look like the main
21 file, can't they?

22 A You'll have to ask Mr. Schick about that.

23 Q Please look at table RD-1.

24 A Okay. I'm looking at it.

25 Q The "NA" at the bottom of the chart says you

[C2004-1

Tr. 1/ 223

1 can't give me a cents per copy at the proposed rates
2 because the title is co-mailed. Do you see that?

3 A I see that, yes.

4 Q But if I go to the percentage palletized,
5 it's 23 percent. Can you explain why, if this is both
6 co-mailed, as it says in the footnote, and co-
7 palletized, as it says on about the fifth line of the
8 chart, why, with both co-mailing and co-palletizing,
9 only 23 percent of the copies are palletized?

10 A I think you asked me that in another
11 interrogatory, actually, which I don't remember the
12 number. The answer we got back from Reader's Digest
13 is that different issues are treated differently.
14 Some are co-mailed; some are not. What they have
15 given us are annual figures, and I really cannot
16 provide you more information about what is happening
17 to these titles.

18 Q This title comes out seven times a year with
19 a circulation of about 300,000, and sometimes they co-
20 mail it, and sometimes they don't.

21 A That's my understanding, yes.

22 Q I think you'll be relieved to know we're
23 done with your charts.

24 If you would look at your response to ABM
25 Question No. 2, and I'm focusing particularly on your

Heritage Reporting Corporation
(202) 628-4888

[C2004-1

Tr. 1/ 224

1 indented No. 2, where you say that many pre-bar coded
2 flats are sorted manually.

3 A Yes.

4 Q Should the bar code discount be lower if the
5 Postal Service doesn't take advantage of the bar
6 coding?

7 A I don't think it should be lower because of
8 the Postal Service doesn't take advantage of it. The
9 Postal Service should take advantage of it to the
10 maximum extent.

11 Q So the discount should be based upon the
12 theoretical saving to the Postal Service.

13 A No. The discount should be based on what,
14 in fact, is happening. There are many destinations to
15 very small zip codes, for example, where the Postal
16 Service will not do processing on the machines, and so
17 since the flats never see a machine, they will never
18 take advantage of the bar coding. In order to
19 distinguish that, you will have to have a different
20 rate to different locations in a country, or different
21 zip codes would all have to have their own rates, and
22 that would not be practical.

23 Q Let's back up. Is the bar code discount
24 today based upon the costs that are actually avoided
25 based upon the number of bar-coded pieces that are

[C2004-1

Tr. 1/ 225

1 actually handled, or is it based on the theoretical
2 saving, assuming that all bar-coded --

3 A It is based on certain assumptions about how
4 the Postal Service will sort the flats in different
5 locations. In other words, they is a certain
6 percentage of locations where the flat-sorting machine
7 is available and other places where it's not. It may
8 be, however, that a facility, for various reasons,
9 decides to sort some flats manually, even if they
10 could put it on a machine.

11 Q And if they do that, the mailer should still
12 get the benefit of the bar code discount, shouldn't
13 it?

14 A Well, it's impossible to keep track of what
15 every single facility does.

16 Q But, in theory, if it could be kept track
17 of, would you say that that mailer should pay an extra
18 couple of cents for that piece, or should that --

19 A No. It should be averaged out, obviously.

20 Q Please look at the last paragraph of your
21 response to that Question No. 2.

22 A Okay.

23 Q When you assert that to speculate that
24 increased drop shipping and palletization has caused
25 the increase in periodicals cost, who are you saying

[C2004-1

Tr. 1/ 226

1 speculated that?

2 A Well, I was thinking of you, actually, or
3 whoever wrote the question.

4 Q We suggested that the theoretical cost
5 savings weren't captured, that costs went up despite
6 the work sharing, not that the work sharing caused the
7 work sharing increase. It's a post hoc fallacy to
8 suggest that work sharing caused it.

9 A Well, then we agree, then. The increase in
10 postal costs has all kinds of reasons, and it's not
11 because of work sharing; it's in spite of work
12 sharing.

13 Q So despite the fact that mailers have done
14 more palletizing, more drop shipping, more bar coding,
15 and more sorting, the cost savings that should have
16 been captured --

17 A And also in spite of the fact that the
18 Postal Service has much better technology than they
19 had many years ago.

[C2004-1

Tr. 1/] 229

1

2

3

4

5

6

7 because people call and complain that they haven't
8 gotten their paper on time.

9 Q I'm now going to ask you a couple of
10 questions about your Response No. 5.

11 A Okay.

12 Q Here, you're explaining, on the second page,
13 at least, why treatment as a hot pub doesn't
14 necessarily mean that there is any greater cost, and
15 you say that mailers who drop ship are typically
16 assigned windows for entering their mail that are
17 designed to avoid contributing to peak loads.

18 A Uh-huh.

19 Q That would be true only at the entry
20 facility, wouldn't it?

21 A Wherever that publication is entered.

22 Q So if a facility is entered at an SCF, the
23 attempt, at least, would be to make sure that they
24 arrive at an appropriate time.

25 A Yeah, usually before 5 p.m. is a typical

[C2004-1

Tr. 1/ 230

1 time.

2 Q And then --

3 A From there, they go into the Postal
4 Service's transportation system, which is designed
5 basically with critical dispatchers in mind. If
6 something arrives after a certain time, there is not
7 guarantee that they will be processed that day. Hot
8 pubs are not.

9 Q But the Postal Service still attempts to
10 process them, even if they don't make their critical
11 entry, doesn't it?

12 A My understanding is they do attempt, yes.

13 Q Are you familiar with any what you would
14 call extraordinary efforts?

15 A Well, when we went on this periodicals
16 review team tour that we both did, we saw some
17 examples of inappropriate efforts at meeting service
18 standards for mail that really should have been
19 delayed, and I think our report strongly encouraged
20 that such practices be discontinued. I don't know if
21 they have been discontinued, but they should be.

22 Q In the next-to-last paragraph on the second
23 page of that answer, you say that merely having an
24 employee process the weekly periodical ahead of the
25 monthly doesn't add costs.

1 A The costs are incurred through staffing
2 decisions.

3 Q I'm not challenging your answer. I'm just
4 suggesting --

5 A That's what I'm saying, yes.

6 Q Does it add value to the mailer to have his
7 periodical put ahead of a monthly?

8 A Obviously.

[C2004-1

Tr. 1/ 263

1 Q Are the rates that are proposed by Mr.
2 Mitchell truly cost-based?

3 A I think I have clarified somewhere else that
4 they are -- all of this is a question of degree. You
5 cannot totally desegregate everything. But they are
6 certainly more cost-based than the ones now in effect.

7 Q And the rates now in effect are what, only
8 partially cost-based?

9 A They do take -- they have some incentives,
10 but they are relates to costs, yes.

11 Q The data you provided shows that "Brides"
12 Magazine main file mailing costs 55 cents a copy to
13 mail, and their supplemental mailing costs 84 cents a
14 copy to mail, 29 cents more.

15 Is that additional 29 cents a reflection of
16 additional Postal Service costs?

17 A Yes.

18 Q And "Bon Appetite" has a supplemental
19 mailing of 28,000 copies. It's main file postage cost
20 is 26 cents a copy. Its supplemental mailing is 36
21 cents a copy, 10 cents more under the present rates.

22 That's a cost-based differential there?

23 A All differential are cost-based.

R2001-1

United States Postal Service

**Linda A. Kingsley
(USPS-T-39)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2168

AOL-TW/USPS-T-39-9 Your testimony describes the uses of the SPBS and the LIPS machines to sort packages (bundles) in mail processing plants. While the questions below refer to the SPBS, please indicate in each case if your answer would be any different with respect to the LIPS or any other similar system that might be used for the mechanized sortation of flats packages.

Please assume that a package breaks on an SPBS feeder belt (or that it already was broken before being dumped on the belt.) Assume further that the breakage is too severe for the package to be restored, but that the package's presort, before breaking, was the same as that of the SPBS sort scheme (e.g., a 3-digit package breaking during a 3-digit package sorting operation), so that the package would have had to be broken anyway and no piece sortation is lost. Finally, assume that the individual pieces from the broken package are recovered from the SPBS belt and eventually "prepped" for piece sorting on an automated machine. Please identify how the handling steps of these pieces, from the point when the package is dumped on the SPBS belt until the flats are "prepped" and ready for the automated flat sorter, differ from the corresponding pieces from packages that did not experience premature breakage. Please also provide the best possible estimate of the per-piece difference in handling costs between the two sets of pieces. Please include in your analysis the fact that the broken package in this example does not need to be keyed on the SPBS, whereas packages that maintain their integrity do.

If you cannot precisely specify the cost difference between pieces from packages that break prematurely and those from packages that do not, please indicate whether, under the assumptions spelled out above, you believe that the pieces in the broken package incur more costs than those from other packages. If possible, please indicate also the approximate magnitude of the cost differential.

RESPONSE:

The package described in your interrogatory above which remains intact would travel from the feeder belt to the keying station, be keyed, sorted to the proper run-out into a container, then transported to the operation where the package would be broken open and prepped for subsequent piece sortation. If the package breaks on the feeder belt, the pieces would be either: 1) removed by hand from the belt, reoriented, placed into a container, and then transported to the distribution operation where the pieces would be sorted; or 2) if the pieces in

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2169

the broken bundle are easy to identify, it can be put back together for further bundle sortation without losing the presort.

Witness Miller in USPS-T-24 sponsors cost data related to flat mail processing. It is my understanding, however, that the additional costs associated with broken bundles specific to the SPBS operation are "baked in" and reflected in the productivities used in Witness Miller's models. It is my further understanding that the costs associated with the additional piece distribution required for broken bundles is explicitly accounted for in his model.

Based on the assumptions above, I believe that the broken bundle, to the same presort level as the sort scheme, would incur a small amount of additional costs based on the time required to collect and orient the pieces, as well as the potential negative impact on the productivity of SPBS operation than if the bundle had remained intact.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2170

AOL-TW/USPS-T-39-10 In Docket No R2000-1 you provided, in response to MPA interrogatory MPA/USPS-T10-4 (Tr. 5/1705), a copy of a letter from USPS management dated December 30, 1999 and signed by Mr. Walter O'Tormey. The letter discusses Periodicals package breakage recovery methods. It characterizes the practice of keying, on the SPBS machines, individual pieces from broken packages as the least economic method and states that it should not be used under any circumstance.

a. Is it your impression that, after the management letter referred to above was circulated to the field, there occurred a significant reduction in the practice of keying individual pieces from broken packages on the SPBS machines? If yes, approximately what percentage of the previous incidences of keying individual pieces do you believe has now been eliminated?

b. The letter referred to above also states:

"Clearly, the most economical method of package breakage recovery is to recover the broken packages as originally secured by the mailers at induction and re-band them using rubber bands and/or strapping machines and re-induct them into the system. This is the preferred method and should be utilized whenever the package integrity is sufficient to identify the contents because it retains the correct presort level."

Based on your knowledge of the mail processing system, roughly what percentage of broken packages on feeder belts do you believe is recovered in the prescribed manner? If no precise measure is known, please indicate at least whether you believe the packages so recovered represent a large or a small percentage of all broken packages.

c. When a broken package observed on an SPBS feeder belt is "recovered" in the manner described in part b of this interrogatory, approximately what are the extra handling costs, per-piece or per-package? In your answer, please include a consideration of how the need to recover broken packages impacts staffing requirements and overall productivity in SPBS operations.

d. The letter referred to above also states:

"If the packages have broken and lost their integrity, they should be recovered and, whenever possible, faced and put directly into the proper container. i.e., flat tub, u-cart etc., for further processing on the appropriate Flat Sorter Machine (FSM) sort program."

Roughly what percentage of broken packages on SPBS feeder belts do you believe lead to the recovery of individual pieces in the manner indicated above?

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2171

e. When individual pieces are recovered from an-SPBS feeder belt as described in part d of this interrogatory, what approximately are the extra per-piece or per-package costs imposed by the premature breakage? In your answer, please assume that the package's original sort level was the same as that of the SPBS sort scheme.

f. Please address the questions posed in parts b-e of this interrogatory for the case when broken packages are observed on a manual opening belt. That is, what are the relative frequencies of recovering (1) the entire package and (2) individual pieces from broken packages, and what are the extra per-piece or per-package handling costs in each case?

RESPONSE:

- a. Based on general observations at some plants, it is my impression that there was some reduction in the keying of individual pieces from broken packages on SPBS machines as a result of the instructions in the December 30, 1999, letter. However, there is no data that quantifies any reductions because the Postal Service does not collect data that identifies how many flats from broken packages are removed from SPBS machines prior to keying. It should also be noted that observations by members of Mr. O'Tormey's staff subsequent to issuance of the subject letter revealed that several processing plants were not following the recommended procedures for package recovery and were continuing to key individual pieces from broken packages. Based on these observations, the Postal Service reiterated and reinforced the initial instructions on April 3, 2001, in a follow-up letter signed by Mr. O'Tormey. A copy of this letter is attached.
- b. The Postal Service does not have data that identifies the percentage of broken packages on feeder belts recovered in accordance with the

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2172

instructions in the December 30, 1999, letter. Based on anecdotal feedback from various plants, I could only surmise that packages so recovered represent a fairly large percent of all broken packages.

- c. I do not know the costs of recovering a broken package. I would expect the costs to be much less than if the package was not recovered.
- d. As noted in the response to subparts a and b, the Postal Service does not have data that quantifies either the number of pieces from broken packages or the number of broken packages recovered from SPBS feeder belts.
- e. I do not know the extent of the costs incurred to individual pieces due to premature breakage. It would depend, at a minimum, on the sort level (i.e. ADC or incoming primary), machinability of the pieces, and type of piece distribution used (i.e. equipment mix).
- f. See response to subparts a – e.

[R2001-1

Tr. 9/ 2173

April 3, 2001

MANAGERS, IN-PLANT SUPPORT (AREA)

SUBJECT: Package Breakage Recovery Methods

Please reference my letter of December 30, 1999 on the subject above. In that letter, I disseminated information that identified some of the methods of package recovery and the costs associated with each of the different methods.

Observations by members of my staff during recent site visits to numerous processing plants have revealed that several of the plants are not following the recommended procedures for package recovery. Many plants have no recovery plan in place and continue to key individual pieces on the Small Parcel Bundle Sorters (SPBS). In an effort to reduce postal processing costs and improve productivities, especially with the deployment of the Automated Flats Sorting Machine (AFSM 100), it is critical that these procedures be followed.

Recovery of broken packages should occur at their induction. Whenever the package integrity is sufficient to identify the contents as originally secured by the mailers, the packages should be re-banded using strapping machines and/or rubber bands, and re-inducted into the processing system. This is still the most economical method of package breakage recovery and should be utilized whenever possible.

However, if the packages have broken and lost their presort integrity, they should not be recovered (i.e., secured as a package). Instead, the individual pieces should be faced and put directly into the proper container, (i.e., flat tub, u-cart, etc.), for further processing on the appropriate Flat Sorter Machine (FSM) sort program. Whenever possible, this should be completed on the SPBS feed system; if this can not be done, the keyers should perform this task at the individual keying stations.

[R2001-1

- 2 -

Tr. 9/ 2174

The least economical processing method is keying the broken package as individual pieces on the SPBS. Productivities are considerably lower on the SPBS as compared to the FSM and the potential for errors is greater. Efforts should be taken to ensure that this processing method is not being utilized in your processing plants.

When large volumes of broken packages are received from the same mailer, it is imperative that a mail preparation irregularity report (PS Form 3749) is filled out and the mail preparer and publisher/advertiser are notified. This form has been recently updated in an effort to modernize it and make it more responsive (see Postal Bulletin 22043, 02/08/01, Page 33).

Please disseminate this information to all Plant Managers for their action. If you have any questions as it relates to this request, please contact Patrick Killeen of my staff at (202) 268-2473.

Walter O'Tormey
Manager

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.

2175

AOL-TW/USPS-T-39-11 Please consider the case where packages on a 3-digit pallet are sorted manually, from the pallet into various containers. Assume that a carrier route package lands in a 5-digit container, appropriate for that carrier route, but that on impact in the receiving container the package breaks.

a. Please confirm that the further disposition of this package and the pieces in it will normally be one of the following:

(1) the package is recovered and distributed, in a subsequent manual package sort, to the appropriate carrier; or

(2) the individual pieces from the package are recovered and "prepped" for incoming secondary flat sorting to the given 5-digit zone.

If you believe the package might be handled in a manner different from the two alternatives listed, please explain and indicate the approximate likelihood of the alternative treatment.

b. Approximately what is the likelihood of the first alternative, i.e., that the "broken" package can be recovered, thereby avoiding the need for incoming secondary piece sorting?

c. Approximately what are the extra costs due to the premature breakage under the first alternative?

d. Excluding the actual incoming secondary costs, what additional costs are incurred under the second alternative indicated above?

RESPONSE:

a. For the most part, confirmed. Normally, if a carrier route package breaks on impact after being sorted manually from a 3-digit pallet into a 5-digit container appropriate for the carrier route, the pieces from the package will be distributed manually at the deliver unit as described in (1). The 5-digit container will be directed to the facility where carrier route packages are distributed to the appropriate carrier. When the container is unloaded, the contents will be distributed manually to the carrier. If the contents of the broken package retain their presort integrity, they can be distributed together

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.

2176

to the appropriate carrier. Loose pieces will be distributed individually to the appropriate carrier.

It is unlikely that the Postal Service would prep individual carrier route sorted pieces from a package that breaks open as it falls into a 5-digit container for incoming secondary processing on an FSM, as could be included in scenario (2). This is because carrier route packages would be sorted into a 5-digit container that can be sent directly to the delivery unit.

- b. The Postal Service does not have data to quantify the number of broken carrier route packages that can be recovered to avoid incoming secondary piece processing to carriers.
- c. The extra costs would be associated with collecting the loose pieces from the container, orienting the pieces, and repackaging the pieces. Witness Miller in USPS-T-24 sponsors cost data associated with flat mail processing. However, it is my understanding that these costs are "baked in" and reflected in the productivities used in Witness Miller's models for the bundle distribution operations.
- d. The extra costs would be associated with collecting the loose pieces from the container, orienting the pieces, placing the pieces into a container, and moving the container to the appropriate incoming secondary operation. Also, see response to subpart (c).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2177

AOL-TW/USPS-T-39-12 Please consider a scenario similar to that described in the preceding interrogatory (AOL-TW/USPS-T39-11), except that instead of a 3-digit pallet, the manual package sorting is performed from a 3-digit hamper that has been filled with packages in a preceding SPBS sort operation. Do your answers to that interrogatory apply also in this case? If not, please explain.

RESPONSE:

Yes. Assuming that the scenario is similar to AOL-TW/USPS-T39-11 where carrier route packages break upon impact when landing in a 5-digit container.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2178

AOL-TW/USPS-T-39-13 Please consider a clerk performing a manual package sort, from a hamper filled in a preceding SPBS sorting operation. Assume that he finds a package that, although still together, has been damaged so that it is at risk of breaking in the subsequent sort. Please explain what the clerk is supposed to do in that case, and if possible the extra costs incurred by the damaged package.

RESPONSE:

The clerk should re-band the package and place it in the appropriate container (e.g., a carrier route package from a 3-digit or SCF hamper that will be placed in a 5-digit container).

The extra costs would be associated with re-banding the package using rubber bands and/or strapping machine. Witness Miller USPS-T-24 sponsors cost data associated with flat mail processing. It is my understanding that these costs are "baked in" and reflected in the productivities used in his models for bundle distribution operations.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2179

AOL-TW/USPS-T-39-14 Please consider the case where carrier route flats packages are being sorted either from a 5-digit mailer-prepared pallet, or from a 5-digit hamper that has been filled in a preceding SPBS sorting operation. Assume that packages are manually thrown into individual hampers or U-carts, one for each carrier route. Assume that a package, upon landing in the appropriate hamper or U-cart, breaks.

a. Please confirm that the pieces in this package will have made it to the carrier level and therefore do not need to go back to an incoming secondary operation, regardless of the degree of damage sustained by the package.

b. Please confirm that this package would have to be broken by the carrier anyway.

c. Who would normally recover individual pieces in this bundle from the hamper? Would it be the carrier or the mail processing employee who brings mail to the carrier?

d. What are the extra handlings and associated costs of package breakage in this case?

e. Please confirm that in many DDUs the sortation of flats packages to the carriers is performed, not by throwing but by placing the package on the carrier's ledge, or on a shelf or in a cubby hole designated for that carrier so that the possibility of package breakage does not occur.

RESPONSE:

Packages are typically not thrown into a hamper or U-cart for each carrier route.

The packages are typically placed into flat tubs or other containers where breakage should not be an issue at this point.

(a) Confirmed.

(b) Confirmed in virtually all instances. Firm packages would not be opened.

(c) It is my understanding that if hampers are used, then a mail processing employee would be most likely to recover individual pieces since volume has to be measured prior to being cased by the carrier.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

2180

(d) The carrier may have to re-orient the pieces and the Line of Travel or walk
sequence may be lost. Both would result in additional casing time.

(e) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.

AOL-TW/USPS-T-39-16 Please refer to your response to AOL-TW/USPS-T39-7, where you say that the FSM-1000 will have one automated feed and three keying consoles in the test-year configuration.

- c. What is the maximum FSM-1000 throughput based on the speed of the FSM-1000 belt?
- d. What kinds of flats will be keyed on the FSM-1000 keying consoles?
- e. Will attempts be made to run flats that are rejected in the automated feed mode through the machine again using the keying mode?
- f. How many employees will staff an FSM-1000 under normal operating conditions and how will the work be divided between them?

RESPONSE:

- c. The theoretical maximum throughput depends upon mail piece length and absolutely ideal conditions (i.e., no jams, no mechanical problems, no breaks, maintenance personnel standing-by at the machine, etc.). Maximum throughput of mail with the maximum length (15.75 inches) is approximately 12,000 pieces per hour. For mail with the minimum length (4 inches), 19,000 pieces per hour is the theoretical maximum throughput.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.**

- d. Non-OCR readable or non-feedable flats.
- e. Yes.
- f. See my testimony page 15, lines 16-18, which states the maximum staffing is expected to be five with the AFF/OCR enhancement. Specific work assignments have not yet been determined and are expected to be determined during first-article testing planned for January 2002 in Boston.

[R2001-1

Tr. 9/ 2184

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.

AOL-TW/USPS-T-39-17 In your response to AOL-TW/USPS-T39-14 you commented on the sortation at a delivery unit of bundles of carrier route presorted flats from either a 5-digit pallet or a 5digit hamper. You pointed out that in this type of sortation bundles are normally not thrown into receptacles but "typically placed into flat tubs or other containers where breakage should not be an issue at this point." And in response to part e of that interrogatory you confirmed that packages at this point are sorted "not by throwing but by placing the package on the carrier's ledge, or on a shelf or in a cubbyhole designated for that carrier so that the possibility of package breakage does not occur."

Please comment on the corresponding situation where the carrier route packages are contained in a carrier routes sack, rather than a hamper or pallet.

- a. Please confirm that the term "carrier routes sack" normally refers to a 5-digit sack containing carrier route presorted bundles, going to more than one carrier route within the given 5-digit ZIP code area. If not confirmed, please provide an alternative definition.
- b. Assume that a bundle inside such a sack has broken during transport and is not easily recoverable. What would the clerk handling this mail normally do with the pieces from this bundle? In particular, what is the likelihood that he would do each of the following?
 - (1) Bring each loose flat to the appropriate carrier.
 - (2) Collect the loose flats and take them to a manual incoming secondary flats case at the DDU.
 - (3) Collect the loose flats and return them for incoming secondary sortation at the main office.
 - (4) Any other action not listed above. Please explain fully.
- c. Would the contents of this sack normally be dumped on a table or opening belt before sorting the bundles to each carrier, or would the clerk sort directly from the sack?
- d. Would the clerk distributing the contents of a carrier routes sack to the carriers normally have scheme knowledge?
- e. Assume that instead of being carrier routes, a sack is labeled as being only for a single carrier. Would the clerk handling it in that case take the sack's contents, including any loose pieces from broken bundles, directly to the receptacle for the appropriate carrier, rather than mix it with mail going to other carriers? If no, please explain why not.

[R2001-1

Tr. 9/ 2185

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.

RESPONSE:

- (a) Confirmed.
- (b) The clerk or mailhandler is likely to follow the action described in (2) and unlikely to follow the other actions.
- (c) The contents would normally be dumped before sorting the bundles.
- (d) Though the packages would be labeled via a facing slip or OEL with carrier route information, scheme-qualified clerks typically distribute the packages. In some instances, nonscheme-qualified clerks or mailhandlers would distribute carrier route bundles from a carrier routes sack or pallet.
- (e) Yes. The contents of a carrier route sack will be kept separate upon removal and then distributed to the carrier's case.

[R2001-1

Tr. 9/ 2186

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.

AOL-TW/USPS-T-39-18 In your response to AOL-TW/USPS-T39-14, part c, you indicate that any loose pieces found in a 5-digit hamper at a DDU are likely to be recovered by a clerk rather than a carrier, because "volume has to be measured prior to being cased by the carrier."

- a. Does the statement mean that all volume going to every single carrier has to be measured?
- b. Why does volume have to be measured prior to being cased by the carrier?
- c. What postal data system do the measurements of mail volumes going to carriers belong to?
- d. What precisely does the clerk who handles mail before it goes to a carrier measure and record regarding the volume to that carrier?

RESPONSE:

- a. All flat and non-DPS letter volumes for city carriers are measured daily.
- b. Volume is measured to get an idea of carrier workload to determine if they may need assistance or are able to assist another route. For example, if the last route inspection showed 15 feet of mail for the route to be completed in 8 hours, and the carrier has 25 feet today, the carrier may need assistance.
- c. Volumes go into the Delivery Unit Volume Recording System (DUVRS) which are fed into the Delivery Operations Information Sub-system (DOISS) computer at each delivery unit, and are then fed into the FLASH reporting system.
- d. Usually the carrier supervisor measures the linear feet of flats and non-DPS letters at the carriers' cases before the carriers start the route. Volumes continue to be recorded as addition mail is given to the carriers after they have started casing.

[R2001-1

Tr. 9/]

2187

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF AOL TIME WARNER, INC.

AOL-TW/USPS-T-39-19 In your response to AOL-TW/USPS-T39-5, part e, you indicate that an AFSM typically may run 3 or 4 incoming secondary schemes at the same time.

a. Will the same 3-4 schemes normally be worked together every night, or may it change from night to night?

b. How often will a facility revise its incoming secondary sort plan?

RESPONSE:

a. Normally every night.

b. AFSM incoming secondary sort plans are updated on an accounting period basis or as needed such as when there are changes to route territory. High growth areas usually update FSM sort plans weekly to ensure mail for all the new delivery points are sorted to carrier route instead of being sent as 5-digit working mail for the delivery unit to work.

R2005-1

United States Postal Service

**Marc D. McCrery
(USPS-T-29)**

TW/USPS-T11-5 You describe a new cost pool that you call 1DSPATCH. At page 7 in your testimony you refer to it as "the dispatch unit."

- a What is "the dispatch unit" in a postal facility?
- c Is "the dispatch unit" typically located on the platform? Or is it located on the workroom floor?
- h Please describe all normal duties for employees in this cost pool and any unique skills required.
- i Is it fair to say that the workload in this cost pool varies greatly, with periods of intense activity followed or preceded by periods of little or no activity?
- j If they temporarily run out of things to do in their own cost pool, which other pools are employees in this pool likely to be assigned to?
- k Has the Postal Service undertaken any study to assure that use of MODS numbers 124-129 is uniform and consistent in all processing plants that use those numbers? If yes, what was the result of such a study?

RESPONSE:

- a Operations 124-127 include the work hours used to separate trays, sacks, bundles, or parcels into containers in preparation for dispatching. They also include hours used for the collection and set-up of mail transport equipment for the unit, movement of working containers into the unit, the strapping and sleeving

of trays with or without automatic strapping and sleeving equipment, and the staging of worked containers. If the facility uses a Tray Management System (TMS), the workhours for removing trays from the TMS and separating them into containers for dispatch are charged to Dispatch. Operations 128-129 are specifically for work hours used at Area Distribution Centers (ADC) for the primary/3-digit separation of mail to the facilities in the ADC service area.

- c Yes to both questions. Dispatch operations are located around the floor and into the platform area depending on equipment used and available space.

- h See response to 5a. Standard Position Descriptions for the employees listed in 5f are attached.

- i Yes

- j Other cost pools in LDC 13 or LDC 17

- k Not to my knowledge. The actual application of MODS numbers in this workcenter is inherently variable among plants due to the differences in equipment among plants.

STD POSITION DESCRIPTION

U.S. Postal Service

MAIL HANDLER MH-04

FUNCTIONAL PURPOSE

Loads, unloads, and moves bulk mail and performs other duties incidental to the movement and processing of mail.

DUTIES AND RESPONSIBILITIES

1. Unloads mail from trucks. Separates all mail received from trucks and conveyors for dispatch to other conveying units and separates and delivers mail for delivery to distribution areas.
2. Places empty sacks or pouches on racks, labels them where prearranged or where racks are plainly marked, dumps mail from sacks, cuts ties, faces letter mail, carries mail to distributors for processing, places processed mail into sacks, removes filled sacks and pouches from racks and closes and locks sacks and pouches. Picks up sacks, pouches, and outside pieces, separates outgoing bulk mails for dispatch and loads mail onto trucks.
3. Handles and sacks empty equipment; inspects empty equipment for mail and restrings sacks.
4. Cancels stamps on parcel post, operates cancelling machines, carries mail from cancelling machine to distribution cases.
5. Assists in supply and slip rooms and operates copy machine and related office equipment.
6. In addition, may perform any of the following duties: make occasional simple distribution of parcel post mail that requires no scheme knowledge; operate electric fork lifts; rewrap damaged parcels; weigh incoming sacks; clean and sweep work areas, offices, rest rooms, and trucks where work is not performed by a regular cleaner.
7. With approval of the Chief Postal Inspector, acts as an armed guard for valuable registry shipments and as a watchman and guard around post office building.

SUPERVISION

Supervisor, Distribution Operations, or other designated supervisor.

SELECTION METHOD

Senior Qualified

ORGANIZING UNIT

MAIL HANDLER

POSITION REFERENCE

0008

(End of Document)

Date: 11/02/1994

Page 1 of 1

Occupation Code: 2315-41XX

POSITION DESCRIPTION

U.S. Postal Service

GENERAL EXPEDITOR PS-06

FUNCTIONAL PURPOSE

Arranges for the proper transfer for mail which may require the knowledge of incoming and/or outgoing schemes, transportation schedules, and receipt and dispatch information in performing mail distribution between highway contract routes, mail messengers and truck routes, and other mail units; and the separating, loading, and unloading of railway storage cars, flexi-vans and piggy-back trailers, by contractors and postal employees to ensure proper and expeditious handling.

DUTIES AND RESPONSIBILITIES

1. Expedites the distribution and dispatch of all mails processed in the assigned work areas.
2. Coordinates the dispatch of mail from cases, registry section, and/or other areas by giving timely notice of regular and emergency dispatches to ensure expeditious handling of mail. Coordinates the movement of mails from the platform (or related receipt point) to processing areas or from cases to pouches, and pouches to dispatch points or platform.
3. Recommends changes in pouch and sack racks, pouch authorization, and work assignments as changes in distribution and dispatch schedules dictate.
4. Assists supervisor in carrying out special assignments, such as, mail volume counts, information for surveys, observing handling of selected mail matter, and other similar duties. May maintain records of mail volumes, work hours, and other record keeping; assists with on-the-job training.
5. Ensures proper labeling, timely closing, routing and dispatch of all pouches and sacks within the assigned work area; arranges for equipment.
6. Keeps informed on contract provisions for routes serving the facility such as, loading agreements, correct sized vehicles, proper protection of the mail and other special conditions. Periodically inspects contract vehicles and reports deficiencies or irregularities to supervisor.
7. Keeps informed of all scheduled arrivals and departures at the duty station, and has knowledge of the most expeditious dispatches to ensure an alternative rerouting of preferential mails due to unusual circumstances; determines whether mail should be held for alternate connections.
8. Examines outgoing and incoming vehicles to determine degree of utilization and adherence to highway safety regulations and reports irregularities to supervisor.
9. Recommends arrangements for extra trips of service when necessitated by volume or unusual circumstances.
10. Oversees the loading and unloading of storage cars, flexi-vans, piggy-back trailers, or other mail containers intended for transportation by rail when such activities are performed at the facility.

(Continued on next page)

Document Date: 11/02/1994

Page 1 of 2

Occupation Code: 2315-11XX

STD POSITION DESCRIPTION

U.S. Postal Service

GENERAL EXPEDITOR PS-06

11. Maintains close contact with supervisor in the distribution and vehicle service units to assure close coordination of all mail handling operations.
12. Performs manual distribution of all classes of mail.
13. Performs other job related tasks in support of primary duties.

SUPERVISION

Manager, Airport Mail Center/Facility or other designated supervisor.

SELECTION METHOD

Senior Qualified

BARGAINING UNIT

CLERK

KEY POSITION REFERENCE

KP-0015

(End of Document)

Document Date: 11/02/1994

Page 2 of 2

Occupation Code: 2315-11XX

OCCUPATION DESCRIPTION

U.S. Postal Service

MAIL HANDLER EQUIPMENT OPERATOR MH-05**FUNCTIONAL PURPOSE**

Operates a jitney, fork-lift or pallet truck for the movement of mail, and performs other mail handler functions as required.

FUNCTIONS AND RESPONSIBILITIES

1. Operates a jitney, fork-lift or pallet truck, as a qualified licensed driver in the performance of transporting mail within a postal facility.
2. Moves empty equipment utilized in transporting mail to storage or staging area.
3. Performs routine safety inspection of vehicular equipment utilized; reports deficiencies.
4. Observes established safety practices and requirements.
5. Performs other mail handler duties when not occupied as a licensed driver.

SUPERVISION

Supervisor, Distribution Operations, or other designated supervisor.

SELECTION METHOD

Senior Qualified

ORGANIZING UNIT

MAIL HANDLER

KEY POSITION REFERENCE

KP-0010

(End of Document)

Document Date: 11/02/1994

Page 1 of 1

Occupation Code: 5704-03XX

POSITION DESCRIPTION

U.S. Postal Service

MAIL PROCESSING CLERK PS-05

FUNCTIONAL PURPOSE

Performs a variety of clerk duties required to process mail using automated mail processing equipment or manual methods of sortation and distribution.

DUTIES AND RESPONSIBILITIES

1. Makes one or more sortations of outgoing and/or incoming mail using the appropriate sort program or manual distribution scheme.
2. On a rotation basis, performs all of the following duties: loads mail onto automated equipment, culling out non-processable items; enters sort plan and starts equipment; monitors flow of mail to ensure continuous feed; sweeps separated mail from bins/ stackers; and stops equipment when distribution run or operation is completed. Runs machine reports, clears jams and contacts maintenance for assistance when required.
3. Prepares work area, ensuring all necessary support equipment and materials, including labels, trays, and other containers, are in place.
4. Removes sorted mail from bins or separations and places into appropriate trays or containers for further processing or dispatch based on knowledge of operating plans and dispatch schedules, or at the instruction of supervisors or expeditors; may riffle or verify mail to ensure sortation accuracy as needed.
5. In addition, may perform any of the following duties: provide service at public window for non-financial transactions; maintain records of mails; examine balances in advance deposit accounts; and record and bill mail requiring special service.
6. Uses established safe work methods, procedures and safety precautions.
7. Performs other job related tasks in support of primary duties.

SUPERVISION

Supervisor, Distribution Operations; Supervisor, Customer Services, or other designated supervisor

SELECTION METHOD

ORGANIZING UNIT

CLERK

(End of Document)

Document Date: 04/25/2002

Page 1 of 1

Occupation Code: 2315-0063

[R2005-1

TW/USPS-T11-6 You describe a new cost pool that you call 1FLATPRP.

- d. What is the normal craft and pay level for employees in this pool?
- e. Please describe all normal duties for employees in this cost pool and any unique skills required.
- f. Please confirm that the purpose of this cost pool is to prepare flats that arrive in non-carrier route bundles for piece sorting on the AFSM-100 or other flats sorting machines. If not confirmed, or if there are additional duties, please explain.
- g. If they temporarily run out of things to do in their own cost pool, which other pools are employees in this pool likely to be assigned to?
- h. Has the Postal Service undertaken any study to assure that use of MODS number 035 is uniform and consistent in all processing plants that use this number? If yes, what was the result of such a study?

RESPONSE:

- d. Mail Handler, Level 4
- e. Work hours charged to Operation 035 are specifically for the following tasks:
 - 1. Removal of strapping or banding from flat bundles that are processed on flat sorting machines or in manual flat cases.

[R2005-1

Tr. 5/ 1716

2. Separating, facing and loading flats into mail transport equipment that will be sent to flat sorting machines or manual flat cases.
 3. Securing flats into an AFSM 100 Flat Mail Cart that will be sent to an AFSM 100.
- f. See response to 6e.
- g. Other LDC-17 cost pools.
- h. Not to my knowledge.

TW/USPS-T11-7 You describe a new cost pool that you call 10PTRANS. At page 7 in your testimony you refer to it as "the opening unit's manual transport."

- a. What is "the opening unit's manual transport" in a postal facility?
- e. What is the normal craft and pay level for employees in this pool?
- g. Please describe all normal duties for employees in this cost pool and describe any unique skills required.
- h. If they temporarily run out of things to do in their own cost pool, which other pools are employees in this pool likely to be assigned to?
- i. Has the Postal Service undertaken any study to assure that use of MODS number 114 is uniform and consistent in all processing plants? If yes, what was the result of such a study? Specifically, did the Postal Service verify that MODS number 114 is used by, and only used by, employees that operate "the opening unit's manual transport?"
- j. Is MODS number 114 sometimes used to represent an SCF opening unit?

RESPONSE:

- a. Operation 114 is specifically for work hours used to transport containers of mail between work areas. It also includes work hours used to weigh mail into or from distribution operations.

[R2005-1

Tr. 5/ 1718

- e. Mail Handler, Level 4 and Mail Processing Clerks, Level 5
- g. See response to 7a and Standard Position Description attached to 5h.
- h. Other LDC 17 and LDC 13 cost pools.
- i. Not to my knowledge.
- j. No, but see response to 7c and 7d.

[R2005-1

TW/USPS-T11-8 You describe a new cost pool called 1TRAYSRT. At page 6 in your testimony you refer to it as "the tray sorters and robotics cost pool."

- d. What is the normal craft and pay level for employees in this pool?
- f. Please describe all normal duties for employees in this cost pool and describe any unique skills required.
- g. If they temporarily run out of things to do in their own cost pool, which other pools are employees in this pool likely to be assigned to?
- h. Has the Postal Service undertaken any study to assure that use of MODS numbers 618, 619 and 627-629 is uniform and consistent in all processing plants? If yes, what was the result of such a study? Specifically, did the Postal Service verify that these MODS numbers are used by, and only used by, employees that operate "tray sorters and robotics?"
- i. Please confirm that the cost pool handles trays of letters and flats that have been sorted at a piece distribution operation in the given plant. If not confirmed, please explain.
- j. Does the pool also handle trays of letters and flats that have arrived from another postal facility? If yes, please describe the circumstances under which this occurs.

RESPONSE:

[R2005-1

- d. Mail Handler, Level 4 and Mail Processing Clerk, level 5.
- e.
- f. See responses to 8e and the Standard Position Descriptions attached to 5h.
- g. Other LDC-13 and LDC-17 operations.
- h. Not to my knowledge.
- i. Confirmed.
- j. Yes. This cost pool may sort trays sent from other facilities for dock transfer or distribution.

[R2005-1

TW/USPS-T11-9 Is the pool called "1PRESORT" any different from the "Bulk Presort" pool used in previous rate filings? If yes, please explain. In any event, please answer the following.

- b. What is the normal craft and pay level for employees in this pool?
- c. Please describe all normal duties for employees in this cost pool and identify any unique skill levels required.
- d. If they temporarily run out of things to do in their own cost pool, which other pools are employees in this pool likely to be assigned to?
- e. Has the Postal Service undertaken any study to assure that use of MODS numbers 002 and 003 is uniform and consistent in all processing plants? If yes, what was the result of such a study?

RESPONSE:

- b. Mail Handlers, Level 4 and Mail Processing Clerks, Level 5
- c. Operations 002-003 are specifically for activities related to handling presort mail.

The activities include traying, sleeving, strapping, and separation for the next handling operation, which is generally scan-where-you-band, Automated Airline Assignment, distribution, or dispatch.
- d. Other LDC 13 and LDC 17 operations.
- e. Not to my knowledge.

C2004-1

United States Postal Service

**Michael W. Miller
(USPS-RT-1)**

Postal Rate Commission
Submitted 9/9/2004 4:02 pm
Filing ID: 41672
Accepted 9/9/2004
USPS-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

COMPLAINT OF TIME WARNER, INC.
ET AL. CONCERNING PERIODICALS
RATES

Docket No. C2004-1

REBUTTAL TESTIMONY
OF
MICHAEL W. MILLER
ON BEHALF OF
UNITED STATES POSTAL SERVICE

[C2004-1]

TABLE OF CONTENTS

1		
2		
3	AUTOBIOGRAPHICAL SKETCH	ii
4		
5	I. PURPOSE AND SCOPE OF TESTIMONY	1
6		
7	II. INTRODUCTION	1
8		
9	III. PERIODICALS COSTS ARE INFLUENCED BY NUMEROUS COST DRIVERS	1
10		
11	A. COST REDUCTION EFFORTS ARE UNDERWAY	2
12		
13	B. EQUIPMENT DEPLOYMENTS AND COST REDUCTION PROGRAMS	
14	MAY HAVE CONTRIBUTED TO IMPROVING THE SITUATION AS THE	
15	PERIODICALS COST TREND APPEARS TO BE LEVELING OFF	2
16		
17	C. FLATS MAIL CHARACTERISTICS ARE DIVERSE AND CONSIST OF AN	
18	EXTENSIVE NUMBER OF COST DRIVERS, NOT ALL OF WHICH CAN	
19	REFLECTED IN THE RATES.....	4
20		
21	IV. THE CONTEXT IN WHICH A COST MODEL IS BEING USED IS IMPORTANT	4
22		
23	A. THE GOAL OF MOST SPECIAL COST STUDIES IS TO CALCULATE	
24	AVOIDED OR ADDITIONAL COSTS, NOT "BOTTOM-UP" COSTS FOR	
25	FOR SPECIFIC MAIL	5
26		
27	B. THE DOCKET NO. R2001-1 FLATS COST STUDIES WERE APPROPRIATE	
28	GIVEN THE CONTEXT IN WHICH THEY WERE USED	6
29		
30	C. USPS LR-I-332 WAS NOT CREATED TO SUPPORT A GRID	
31	RATE ANALYSIS.....	8
32		
33	D. THE USE OF HISTORICAL RATE CASE DATA MAY NOT BE	
34	APPROPRIATE FOR THE PURPOSES AT HAND	9
35		
36	1. PIECE DISTRIBUTION COST ESTIMATES ARE RELIABLE IN THE	
37	CONTEXT IN WHICH THEY HAVE BEEN USED, BUT REPRESENT	
38	FLATS AVERAGES	9
39		
40	2. THE BUNDLE STUDIES RELIED UPON BY WITNESS	
41	STRALBERG MAY NOT SUPPORT A GRID RATE ANALYSIS	10
42		
43	3. THE EXTENT TO WHICH CONTAINER COSTS MAY BE	
44	WEIGHT RELATED IS UNCLEAR	11
45		
46	V. SUMMARY	12

[C2004-1]

1
2
3
4

**REBUTTAL TESTIMONY
OF
MICHAEL W. MILLER**

5

AUTOBIOGRAPHICAL SKETCH

6 My name is Michael W. Miller. I am an Economist in Special Studies at the
7 United States Postal Service. Special Studies is a unit of Corporate Financial Planning
8 in Finance at Headquarters. I have testified before the Postal Rate Commission on six
9 separate occasions.

10 In Docket No. R2001-1, I sponsored two separate testimonies as a direct witness
11 on behalf of the Postal Service. The first testimony presented First-Class Mail
12 letters/cards and Standard Mail letters mail processing unit cost estimates and
13 worksharing related savings estimates, the Qualified Business Reply Mail (QBRM)
14 worksharing related savings estimate, the nonstandard surcharge/nonmachinable
15 surcharge cost studies, and the Business Reply Mail (BRM) fee cost studies. The
16 *second testimony presented First-Class Mail, Periodicals, and Standard Mail flats mail*
17 processing unit cost estimates.

18 In Docket No. R2000-1, I testified as the direct witness presenting First-Class
19 Mail letters/cards and Standard Mail letters mail processing unit cost estimates and
20 worksharing related savings estimates. My testimony also included the cost study
21 supporting the nonstandard surcharge. In that same docket, I also testified as a
22 rebuttal witness. My testimony contested key elements of the worksharing discount
23 *proposals presented by several First-Class Mail intervenors*, as well as the Office of the
24 Consumer Advocate (OCA).

25 In Docket No. R97-1, I testified as a direct witness concerning Prepaid Reply
26 Mail (PRM) and QBRM mail processing cost avoidance estimates. In that same docket,
27 I also testified as a rebuttal witness concerning the Courtesy Envelope Mail (CEM)
28 proposal presented by the OCA.
29

[C2004-1]

1 Prior to joining the Special Studies unit in January 1997, I served as an Industrial
2 Engineer at the Margaret L. Sellers Processing and Distribution Center in San Diego,
3 California. In that capacity, I worked on field implementation projects. For example, I
4 was the local coordinator for automation programs in San Diego such as the Remote
5 Bar Coding System (RBCS) and the Delivery Bar Code Sorter (DBCS). I was also
6 responsible for planning the operations for a new Processing and Distribution Center
7 (P&DC) that was activated in 1993. In addition to field work, I have completed detail
8 assignments within the Systems/Process Integration group in Engineering. My primary
9 responsibility during those assignments was the development of Operating System
10 Layouts (OSL) for new facilities.

11 Prior to joining the Postal Service, I worked as an Industrial Engineer at General
12 Dynamics Space Systems Division, where I developed labor and material cost
13 estimates for new business proposals. These estimates were submitted as part of the
14 formal bidding process used to solicit government contracts.

15 I was awarded a Bachelor of Science degree in Industrial Engineering from Iowa
16 State University in 1984 and a Master of Business Administration from San Diego State
17 University in 1990. I also earned a Professional Engineer registration in the State of
18 California in 1990.

[C2004-1]

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of my testimony is to enhance the Docket No. C2004-1 record, as it
3 pertains to costs, in response to the testimony of Time Warner et al. witness Stralberg.
4

5 II. INTRODUCTION

6 In his testimony, witness Stralberg stated his view that the *Outside County*
7 *Periodicals* rate structure proposed by witness Mitchell¹ is sound because it recognizes
8 "the characteristics of sacks, pallets, and bundles that affect postal costs, as well as the
9 characteristics of individual pieces that affect costs..."² In reality, additional cost drivers
10 affect *Outside County Periodicals* costs beyond those addressed in this case. These
11 additional cost drivers, however, are not specifically recognized in the proposed rates.
12 Given the large number of cost drivers that affect *Outside County Periodicals* costs, or
13 the costs for any postal product, it will not always be feasible to incorporate all cost
14 drivers into the rate schedule.

15 Despite this fact, *Periodicals* costs do appear to be the primary issue in this
16 case. In his testimony, witness Mitchell expressed the view that *Periodicals* rates are
17 increasing too rapidly.³ While *Periodicals* cost trends may have served as an incentive
18 to file this case, they should not be the only consideration. Consideration must also be
19 given to the data that support the analysis and the context in which those data have
20 been used.

**21
22 III. PERIODICALS COSTS ARE INFLUENCED BY NUMEROUS COST DRIVERS**

23
24 *Particularly since the late 1980s, there has been concern that, due to*
25 *rising costs, the rates for Periodicals have been rising inordinately*
26 *rapidly. Docket No. C2004-1, Tr.3/806 at 7-8.*
27

28 The *Periodicals* cost coverage figures, as presented in Cost and Revenue
29 Analysis (CRA) reports, have recently hovered around the 100-percent mark.
30 Consequently, any discussion of *Periodicals* inevitably leads to a discussion of costs,

¹ Docket No. C2004-1, Tr. 3/840.

² Docket No. C2004-1, Tr. 1/23 at 16 to 18.

³ Docket No. C2004-1, Tr. 3/805-822.

[C2004-1]

1 and whether those costs are reasonable. In recent years, the Postal Service and the
2 mailing community have expended a great deal of effort trying to contain these costs.

3
4 **A COST REDUCTION EFFORTS ARE UNDERWAY**

5 In Docket No. R2000-1, the Postal Service presented cost reduction programs
6 that were based on the savings associated with the combination of barcoded and non-
7 barcoded bundles in sacks, a reduction in the number of "skin" sacks, the
8 implementation of Line-Of-Travel (LOT) sequencing, and the institution of the newly
9 created L001 label list.⁴ Shortly after that docket, the Postal Service deployed the
10 Automated Flats Sorting Machine model 100 (AFSM100), which processed flat-sized
11 mail at improved productivity levels and provided an increased sorting capacity⁵ when
12 compared to its predecessor, the Flats Sorting Machine model 881 (FSM881).

13 During the past several years, Mailers' Technical Advisory Committee (MTAC)
14 and Postal Service work groups have also attempted to address issues pertaining to
15 Periodicals costs. These work groups have evaluated issues relating to bundle
16 breakage, alternative flats preparation methods, and a new flats container.

17 Furthermore, the Postal Service has attempted to control costs by proposing
18 moderate revisions to its rate structure. In Docket No. R2001-1, a pallet discount was
19 first proposed and implemented for Periodicals. Recently, the Postal Service has filed
20 two experimental co-palletization dropship discount mail classification cases, Docket
21 Nos. MC2002-3 and MC2004-1.

22
23 **B. EQUIPMENT DEPLOYMENTS AND COST REDUCTION PROGRAMS**
24 **MAY HAVE CONTRIBUTED TO IMPROVING THE SITUATION AS THE**
25 **PERIODICALS COST TREND APPEARS TO BE LEVELING OFF**

26 The Outside County Periodicals cost trend⁶ over the past ten Fiscal Years (FY)
27 appears to have leveled off to some extent, as shown in Figure 1 below. Between FY
28 1994 and FY 1999, the marginal cost increased nearly six cents. From FY 1999 to FY
29 2003, however, the marginal cost figures have remained relatively flat.

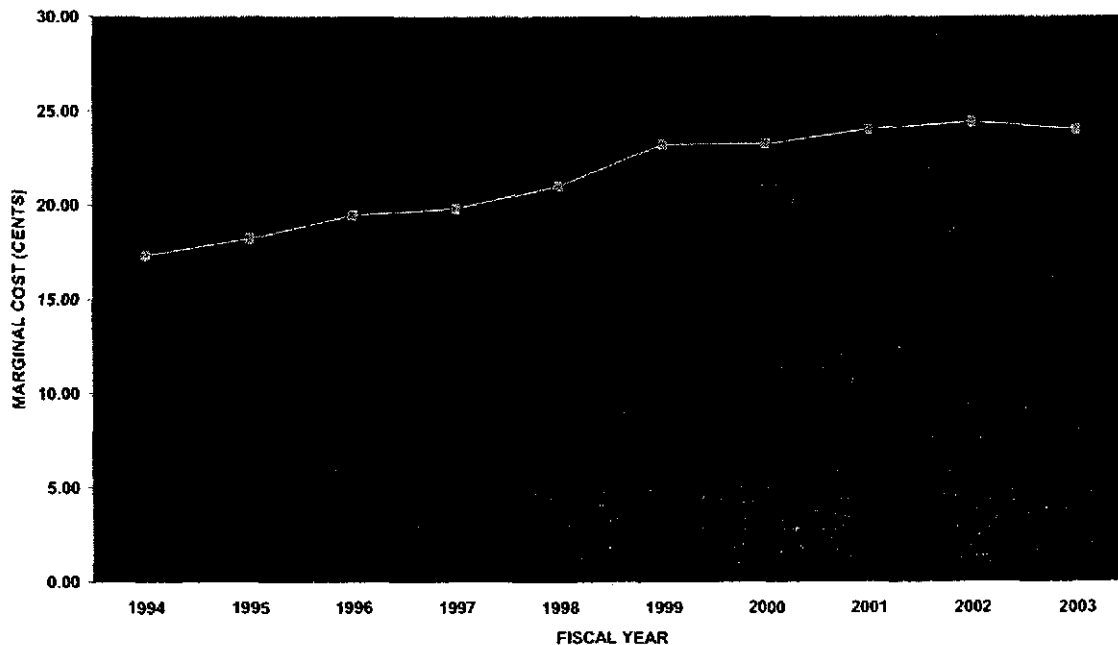
⁴ See the responses to Docket No. R2000-1, MPA/USPS-ST42-4 and MPA/USPS-ST42-5.

⁵ The AFSM100 productivity is, in general, over twice that of the FSM881, depending on the operation. The AFSM100 contains 120 bins, while the FSM881 contains 100 bins.

⁶ These figures were calculated using the Postal Service versions of the CRA and Cost Segments/Components reports.

[C2004-1]

FIGURE 1: OUTSIDE COUNTY PERIODICALS
CRA MARGINAL COST (CENTS)
FY 1994-2003



1
2 In general, it is not surprising that Outside County Periodicals marginal costs
3 would increase over time, as wage rates and other costs increase over time, in the
4 absence of any significant offsetting cost reductions. The expectation that any flats
5 costs would necessarily decline might not be realistic.⁷ While the costs for some letter-
6 shaped CRA line items may have, on occasion, decreased from one year to the next,
7 the assumption that the same phenomenon would occur for Periodicals may not be
8 valid. The letters automation program has been a cornerstone of the Corporate
9 Automation Plan (CAP) since the late 1980s. The flats automation program, on the
10 other hand, is relatively new. Nevertheless, the Postal Service continues to investigate
11 ways to contain flats costs.

⁷ Docket No. C2004-1, Tr. 3/808 at 1-6.

[C2004-1]

**C. FLATS MAIL CHARACTERISTICS ARE DIVERSE AND CONSIST OF AN
EXTENSIVE NUMBER OF COST DRIVERS, NOT ALL OF WHICH CAN BE
REFLECTED IN THE RATES**

The cost drivers for any mail piece shape, including flats, are numerous. Some cost drivers are reflected in rates, while other cost drivers are not. The following factors can all influence Periodicals flats costs: the network configuration through which the mail is processed (i.e., centralized operations versus decentralized operations, such as annexes and processing "hubs"), the building configurations through which the mail is processed, the dock configurations through which the mail is processed, the equipment available at the facilities through which the mail is processed, the methods used at the facilities through which the mail is processed, the transportation used to ship mail between postal facilities, destination entry, mail piece dimensions (length, height, and thickness), mail piece weight, mail piece volume or "cube," container type (sack or pallet), container size, container weight, bundling materials and the associated breakage rates, bundle size, bundle weight, mail piece machinability (i.e., AFSM100 compatibility), the presence of a barcode on the mail piece, mail piece address location, mail piece return address location, mail piece "noise," the use of polywrap, and the frequency of distribution (if, for example, "Hot 2C lists" are used to manage separate Periodicals mail streams).

It may not be realistic to expect that all the cost drivers listed above could be incorporated into the rate schedule, even though the individual elements all affect costs.

IV. THE CONTEXT IN WHICH A COST MODEL IS BEING USED IS IMPORTANT

Improvement in our understanding of costs in recent years has brought the existing deficiencies into clearer focus and has suggested new paths that cost recognition should follow. Tr. 3/800 at 16-18.

However, in order to be consistent with the Postal Service's mail flow and cost assumptions in R2001-1, the productivity rate for manual incoming secondary should be reduced to 422. That has the effect of sharply increasing the estimated total piece sorting costs. Tr. 1/17 at 10-13.

To my knowledge, there has been no national study to determine the true productivity rate for manual flats sorting that is performed in associated offices, stations and branches. Tr. 1/17 at 20-22.

[C2004-1]

1 Despite witness's Mitchell's implication in the first citation above that our
2 level of cost understanding would support the proposed rates, the subsequent
3 two citations from witness Stralberg would seem to indicate otherwise. In these
4 citations, witness Stralberg discusses an issue he discovered with only one
5 input to the cost model, which, when changed, "sharply" increased the cost
6 estimates. He then went on to state that he is not aware of any study that
7 attempted to calculate the actual statistic in question.

8 This example illustrates one of the many issues a cost analyst must
9 resolve when developing any cost model. While the cost analyst always looks
10 for the best data available, he or she can, on occasion, come up empty handed.
11 In these cases, special studies⁸ may be required. The back drop to this process,
12 of course, is the context in which the cost data and cost models are being used.
13 Furthermore, it is not enough to simply find data; the results must also be
14 meaningful.

15
16 **A. THE GOAL OF MOST SPECIAL COST STUDIES IS TO CALCULATE**
17 **AVOIDED OR ADDITIONAL COSTS, NOT "BOTTOM-UP" COSTS**
18 **FOR SPECIFIC MAIL**

19 While many special cost studies may measure "total" cost estimates, such as
20 total mail processing unit cost estimates, the goal in a rate case, at the rate category or
21 product level, is to measure and/or evaluate the cost relationships between various
22 products. These measurements are typically expressed in the form of avoided costs or
23 additional costs. In most cases, especially those in which the availability of data may be
24 somewhat limited, it is preferable and easier to rely on more narrowly defined cost
25 studies that focus on measuring the impact of specific identified cost drivers.

26 First-Class Mail presort letters can be used as an example. For the past three
27 rate cases, Bulk Metered Mail (BMM) letters costs have been used as the official
28 "benchmark." Mail processing unit costs and delivery unit cost estimates have been
29 calculated in each case for this benchmark. Mail processing and delivery unit cost
30 estimates have also been calculated for each First-Class Mail presort letters rate

⁸ The term "special studies" as it is used here refers to studies that are conducted when a given statistic (e.g., productivity) is not readily available through established Postal Service data collection systems.

[C2004-1]

1 category. The difference between the total mail processing and delivery unit cost
2 estimate for the benchmark and the total mail processing and delivery unit cost
3 estimates for the presort letters rate categories has served as the cost basis for the
4 current discounts. In this example, the measured cost differences, or worksharing
5 related savings estimates, reflect the value of prebarcoding and presorting, which are
6 specific characteristics defining the presort letters rate categories. BMM letters, on the
7 other hand, are not required to be either presorted or prebarcoded.

8 The same principle holds true in cases where the Postal Service assesses
9 surcharges or fees. Business Reply Mail (BRM) can be used as an example in this
10 instance. The basis for the various BRM fees can be found in cost studies which
11 measure the additional counting, rating, billing, and sampling costs incurred by each
12 rate category. BRM is a subset of the First-Class single-piece mail stream. As such,
13 these additional costs represent those costs not typically incurred by non-BRM single-
14 piece mail pieces.

15 Once an analyst has completed a special cost study, the results are provided to
16 a pricing witness. In addition to considering the various ratemaking criteria outlined in
17 Title 39 of the United States Code, the pricing witness relies on the cost data to develop
18 specific rate proposals. In cases where a worksharing related savings estimate or
19 additional cost estimate has been calculated, the pricing witness would determine an
20 appropriate "pass through" to achieve rate design goals. This process has generally
21 been followed for the past several rate cases and adheres to the Commission's pricing
22 principles.⁹

23
24 **B. THE DOCKET NO. R2001-1 FLATS COST STUDIES WERE APPROPRIATE**
25 **GIVEN THE CONTEXT IN WHICH THEY WERE USED**

26 This same approach was applied to the flats cost studies, including the
27 Periodicals cost studies, in Docket No. R2001-1. While the Periodicals subclasses have
28 not historically had an official "benchmark," the pricing witness relied on cost estimates
29 by rate category when developing the rate design. These estimates were used as a tool

⁹ PRC Op. MC95-1, page IV-94 to IV-138.

[C2004-1]

1 in the rate design process to ensure that the cost differences related to prebarcoding
2 and presorting were reflected in the proposed rates.

3 With the development of such estimates as the end goal, I developed a base
4 Periodicals cost model that reflected the mail processing operations through which
5 Periodicals flats were processed up to the point that they were presented to the mail
6 carrier.¹⁰ The model cost estimates were then used, in essence, to de-average the CRA
7 mail processing unit cost estimate for Outside County Periodicals.

8 While the identical base cost model was used to develop estimates for all rate
9 categories, the mail characteristics data upon which each rate category cost model was
10 based were not identical. As witness Stralberg described, the manner in which the various
11 Periodicals and Standard Mail flats rates are assessed can be somewhat confusing.¹¹
12 For all palletized flats, mail pieces are assessed the appropriate presort rate based on
13 the bundle presort level. For flats entered in sacks, the rate is based on the bundle
14 presort level only when the mail pieces are prebarcoded. For non-barcoded mail pieces
15 entered in sacks, the rate is based on the container (sack) presort level.

16 To the extent that these rate application rules may be problematic for the Postal
17 Service and/or mailers, the proposed rate structure presented in this case is not the
18 only option to rectify the situation. Witness Stralberg acknowledged that mail
19 preparation rule changes could be revised as an alternative.¹² That point aside, the rate
20 application rules had a great influence on the cost estimates at the rate category level,
21 and did not necessarily result in cost estimates which could be used to isolate the cost
22 differences related to mailer presorting and prebarcoding efforts.

23 Consequently, at the request of the pricing witness, I developed a second set of
24 estimates in which the presort levels were held constant.¹³ For Periodicals, the
25 nonautomation entry profile was used for automation models as well, in order to provide
26 a more insightful cost comparison. The end result was a cost methodology and set of
27 cost estimates that were appropriate in the context in which they were used, but may
28 not have been appropriate as bottom-up cost estimates.

¹⁰ Docket No. R2001-1, USPS LR-J-61, pages 34 to 68.

¹¹ Docket No. C2004-1, Tr. 1/27 at 28 to Tr. 1/28 at 5.

¹² Docket No. C2004-1, Tr. 1/187.

¹³ Docket No. R2001-1, USPS-T-24, Section III.C.

[C2004-1]

**C. USPS LR-I-332 WAS NOT CREATED TO SUPPORT A GRID
RATE ANALYSIS**

The analysis conducted by witness Stralberg, however, may not necessarily be appropriate in the context in which it has been used. The centerpiece of witness Stralberg's testimony is a methodology similar to that relied upon by the Postal Service to develop Docket No. R2000-1, USPS LR-I-332. Where possible, witness Stralberg incorporated updated information from the subsequent case, Docket No. R2001-1. Consequently, it is worth revisiting the origin of Docket No. R2000-1, USPS LR-I-332.

In Docket No. R2000-1, the Commission expressed its concern about rising Periodicals costs and directed the Postal Service to provide cost data and rationales for various First-Class Mail, Periodicals and Standard Mail subclasses in Presiding Officer's Information Request (POIR) No. 4. This POIR was filed on February 25, 2000. Postal Service witness Smith responded to that request on March 17, 2000. Library reference USPS LR-I-233 was filed in conjunction with that response.

On March 28, 2000, the Commission issued Order No. 1289, which directed the Postal Service to "present detailed evidence explaining the causes of the trend in costs of processing Periodicals from a witness qualified to respond to participants' questions on the topic." It was requested that the witness have high-level managerial responsibility over flats operations.

In response to Order No. 1289, the Postal Service filed two supplemental testimonies on April 17, 2000. Witness O'Tormey (USPS-ST-42) discussed the broad policy issues impacting Periodicals costs from a Headquarters management perspective. Witness Unger (USPS-ST-43) discussed Periodicals cost issues from a field management perspective.

In MPA/USPS-ST42-4, witness O'Tormey was asked to identify and quantify mail preparation changes that were being planned. In his response, witness O'Tormey stated:

The Postal Service is currently considering changes to mail preparation for Periodicals which include: (1) allowing barcoded and non-barcoded bundles in the same sack; (2) elimination of CRRT skin sacks; (3) requiring that basic rate carrier route Periodicals mail be in line-of travel (LOT) sequence; and, (4) mandatory compliance with the L001 option.

[C2004-1]

1
2 Witness O'Tormey went on to identify savings estimates of \$8 million for item (1)
3 and \$3.6 million for item (4). In the response to MPA/USPS-ST42-5, he identified a
4 savings estimate of \$1.6 million for item (2). Library reference I-332 was filed
5 simultaneously and contained the analysis supporting those estimates.

6 This library reference was used to develop broad savings estimates and was not
7 intended to measure cost differences at the rate category level. The use of this library
8 reference as a cost basis for new rate categories may therefore not be valid.

9

10 **D. THE USE OF HISTORICAL RATE CASE DATA MAY NOT BE**
11 **APPROPRIATE FOR THE PURPOSES AT HAND**

12 While the Docket No. R2001-1 cost models were appropriate given the context in
13 which they were used, the reliance on these same data inputs in a USPS LR-I-332
14 analysis may not be appropriate, given that the goal in this case is to develop separate
15 and distinct "bottom-up" piece, bundle, and container costs.

16

17 **1. PIECE DISTRIBUTION COST ESTIMATES ARE RELIABLE**
18 **IN THE CONTEXT IN WHICH THEY HAVE BEEN USED, BUT**
19 **REPRESENT FLATS AVERAGES**

20

21 Many of the flats data contained in the Docket No. R2001-1 cost models, and
22 consequently, the cost models in this case, represent average data for all flats,
23 regardless of class. For example, the productivity figures by operation represent
24 average data because the Management Operating Data System (MODS) does not rely
25 on class-specific operation numbers. The same operation numbers are used for all
26 flats. The density data and accept rate data also represent average figures for all flats,
27 regardless of class.

28 The primary goal of the flats cost models in Docket No. R2001-1 was to develop
29 mail processing unit cost estimates by rate category, which the pricing witness could
30 then use to evaluate the cost impact of mailer prebarcoding and/or presorting activities.
31 After taking these cost differences into consideration, in conjunction with the CRA or roll
32 forward cost data specific to each class or subclass, the pricing witness then developed
33 rate proposals. Consequently, the use of average data to examine these activities did

[C2004-1]

1 not pose a significant risk. In this docket, the reliance on cost models that are based on
2 average data represents a greater risk if the goal is to develop "bottom-up"
3 disaggregated piece, bundle, and container rates for Periodicals flats.

4
5 **2. THE BUNDLE STUDIES RELIED UPON BY WITNESS**
6 **STRALBERG MAY NOT SUPPORT A GRID RATE**
7 **ANALYSIS**

8 The bundle sorting cost estimates may also not be appropriate as used in this
9 docket. In Docket No. R2000-1, two bundle-related studies were conducted. The first
10 study can be found in USPS LR-I-88. Some components of this study were based on
11 qualitative surveys and did not involve quantitative measurements. While some portions
12 of the study involved sampling activities performed at 50 sites, the time period over
13 which the data were collected was the fall of 1998. As the author of the summary report
14 stated on page 2, "The target population for this study was restricted to bundle
15 handlings during the early fall. This should be kept in mind when interpreting results of
16 this survey since there may be seasonal variations in manual bundle handling
17 productivities and handlings."

18 The second study was referenced by witness Stralberg in his testimony and can
19 be found in USPS LR-I-297. This library reference contained a joint bundle breakage
20 study conducted by the Postal Service and MTAC. While the study quantitatively
21 measured bundle breakage rates, it was very limited in scope. It was conducted at six
22 facilities for a limited time period. Furthermore, the study only measured breakage rates
23 when a sack or pallet was first opened. It did not measure breakage rates in
24 downstream bundle sorting operations.

25 I do not mean to imply that the results from these studies were useless. They
26 both provided meaningful data that could be incorporated into the cost model estimates.
27 As stated above, the use of these data in the cost models did not pose a great risk
28 because the primary function of the models was to isolate the cost impact of mailer
29 presorting and prebarcoding efforts. The use of these data in the Time Warner, et al.
30 analysis, however, is problematic, given that the goal of that analysis is to isolate
31 "bottom-up" bundle sorting costs for Periodicals flats.

[C2004-1]

1 There is a great deal that is not known about bundles. For example, I am not
2 aware of any study in which the impact of bundle weight on costs has been measured.
3 Witness Stralberg also does not appear to be aware of any such study.¹⁴

4 Furthermore, bundle rates could result in mailers preparing larger and heavier
5 bundles. In some cases, this could negatively impact operations. Larger bundles would
6 tend to have more pieces than smaller bundles. When larger bundles break such that
7 the integrity of the bundle is lost, more mail would be processed in piece distribution
8 operations, even though that mail should have bypassed those operations.

9 In general, bundle studies are difficult to conduct because they tend to disrupt
10 operations. Consequently, they can only be performed for limited periods of time.
11 While it is not impossible to conduct any analysis, the feasibility of collecting and
12 maintaining these data should be given careful consideration, given the context in which
13 the data would be used.

14
15 **3. THE EXTENT TO WHICH CONTAINER COSTS MAY BE**
16 **WEIGHT RELATED IS UNCLEAR**

17 Finally, there are some inconsistencies as to the manner in which witness
18 Stralberg has classified costs as being either container related or weight related. For
19 example, he states:

20
21 In reviewing the bundle related costs indicated by the model, I noticed that
22 many of those costs in fact do not depend on the number of bundles but
23 rather on the bulk of the bundles. Since bulk is more closely correlated
24 with weight, I believe such costs are more appropriately called weight
25 related. These 'weight related' bundle costs occur when a hamper or other
26 USPS container, after being filled with bundles in a bundle sorting
27 operation, is moved either to another bundle sort or to a piece sorting
28 operation, in either the same facility or a different facility...These costs are
29 therefore primarily determined by cube, which tends to vary in closer
30 proportion with weight than with the number of pieces or bundles, and so
31 it is more appropriate to classify them as pound costs. (Docket No.
32 C2004-1, Tr. 1/26 at 14 to Tr. 1/27 at 5)
33

34 If costs for moving bundles in postal containers are determined to be weight
35 related, rather than bundle related as described by witness Stralberg, it is unclear why

¹⁴ Docket No. C2004-01, Tr. 1/183-186.

[C2004-1]

1 the costs for moving containers, such as pallets or sacks, in a cross-docking operation
2 would also not be classified as weight related. The following interrogatory response
3 would seem to imply that witness Stralberg believes that at least a portion of pallet
4 costs are weight related.

5

6 Q: How fast does a forklift carrying a pallet travel if unimpeded by
7 congestion?

8

9 A: I don't know, and I rely on no assumption regarding the maximum
10 speed of a forklift. I would assume it depends on the weight of the pallet
11 carried as well as the strength of the motor used by a particular forklift.
12 (Docket No. C2004-1, Tr. 1/97)

13

14 It is unclear why the costs for moving containers full of bundles should be
15 considered weight related once the mail has been sorted into postal containers, but
16 container related for pallets and sacks that have not yet been opened.

17

18 V. SUMMARY

19 The current Outside County Periodicals rate structure offers rate incentives for
20 mailers that presort and/or prebarcode their mail. Mailers can both prebarcode and
21 presort a given mailing, but they are not required to do both. While some rate
22 categories reflect a combination of presorting and prebarcoding, the activities are not
23 causally linked; mailer presorting and prebarcoding efforts result in separate and
24 distinct savings to the Postal Service, even though the savings may be expressed in
25 aggregate form during a rate case.

26 The costs for containers, bundles, and individual pieces, however, are causally
27 linked, as confirmed by witness Stralberg.¹⁵ Consequently, the development of a rate
28 schedule based on separate "bottom-up" container, bundle, and piece costs could be
29 somewhat problematic. As discussed above, the application of average rate case data
30 in this docket may not be appropriate, given that the results measured in a general rate
31 case are used for different purposes. Furthermore, the use of the Docket No. R2000-1

¹⁵ Docket No. C2004-1, Tr. 1/188-189.

[C2004-1]

1 USPS LR-I-332 model to support the analysis in this docket also may not be
2 appropriate, given that it was used to support a broader analysis in that docket.
3 While it is not always possible to recognize all cost drivers in the rate schedule
4 for a given postal product, the Postal Service has made attempts in recent cases to
5 expand the scope of worksharing, such as the implementation of the pallet discount in
6 Docket No. R2001-1. As with other worksharing discounts, the analysis on which the
7 pallet discount was based measured cost differences between pallets and sacks, using
8 data from two testimonies in the previous rate case.¹⁶ Witness Taufique was able to
9 mitigate the risk associated with this new rate category by relying on a moderate
10 passthrough.¹⁷ Furthermore, as described by witness Tang (USPS-RT-2, Section I), the
11 impact on all mailers must also be considered before significant structural changes,
12 such as those proposed in this docket, are implemented.

¹⁶ Docket No. R2001-1, USPS LR-J-100.

¹⁷ Docket No. R2001-1, USPS-T-34, page 11 at 10.

R2005-1

United States Postal Service

**Michael W. Miller
(USPS-T-19)**

RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T19-2. Please explain any disagreement when responding to the following.

- a. Please confirm that in the table on worksheet "CRA Flats" in Excel spreadsheet PERIODICALS FLATS.xls, the cost pools you consider worksharing related but have not included in your model are those with a nonzero entry in Column J.
- b. Please confirm that the cost pool named '1FLATPRP', or Flats Preparation, is one of the pools that you have not modeled but defined as worksharing related.
- c. Please confirm that the Flats Preparation cost pool is also identified with MODS number 035, and that it consists of manually breaking bundles of flats that will be processed on flats sorting machines or manual flats cases, removing strapping and banding material, separating, facing and loading flats into mail transport equipment that will be sent to flat sorting machines or manual flat cases and securing the flats mail carts before they are sent to the flats distribution operations.
- d. Please confirm that the flats preparation work comes after the sorting of bundles, which you do model, and before the sorting of pieces, which you also do model.
- e. Please confirm that the projected test year CRA unit cost for Outside County Periodicals in the flats preparation cost pool is 0.81 cents and that you add this cost, along with the unit costs at other worksharing related but not modeled pools, to your modeled unit costs for each rate category. Please confirm also that the corresponding amount under PRC costing is 0.85 cents.

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

(a) Confirmed.

(b) Confirmed.

(c) It is confirmed that the costs for operation 035 are mapped to the "1FLATPRP" cost pool and that the tasks described in your question are generally performed in that operation.

RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.

(d) In general, this can be confirmed. However, there are also other points at which mail is prepped into Flat Mail Carts (FMCs). For example, broken bundles that are culled from the Small Parcel and Bundle Sorter (SPBS) feeding mechanisms are, on occasion, prepped directly into FMCs in an area next to that machine, even though those employees may not be clocked into operation 035.

(e) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T19-3.

- a. In today's mail processing facilities, will flats in mailer prepared non-carrier route bundles normally be routed to an 035 type flats preparation operation before being piece sorted? Please explain any negative answer and describe the circumstances under which flats in non-carrier route bundles will not undergo this type of operation.
- b. In today's mail processing facilities, will flats in carrier route bundles be routed to an 035 type flats preparation operation before the bundles are sent to the carriers? Please explain any affirmative answer.
- c. Please confirm that your methodology for transforming modeled unit costs to estimates of total unit mail processing costs effectively attributes exactly the same amount of flats preparation (035) costs to carrier route presorted flats as to other flats. Explain any disagreement.

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

(a) As stated in the response to TW/USPS-T19-2(d), this is generally true. However, that "035 type flats preparation operation" may take place in a different area and the employees may not actually be clocked into operation 035. In addition to the SPBS example cited in the response to TW/USPS-T19-2(d), I have seen loose flats being prepped into Flats Mail Carts (FMCs) at Bulk Mailer Centers (BMCs). That prepped mail was then transported to the nearest Processing and Distribution Center (P&DC). I am not aware of any studies that have involved an analysis of FMC preparation costs.

(b) In general, carrier route bundles should not be prepped into FMCs at the plant. Instead, those bundles should be dispatched directly to the appropriate Delivery Unit, where they would be open and prepped.

RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.

(c) I think a better way to describe the models is to state that FMC preparation costs are not included in the mail flow model. Therefore, any mail preparation cost distinctions that might exist between rate categories are not reflected in the results.

RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T19-4. Please confirm, or if not confirmed explain any disagreement with each of the following.

- a. Based on the Outside County billing determinants that you are using, 47.494 % of Outside County flats are presorted by mailers to carrier route, while the remaining 52.506 % are not presorted to carrier route.
- b. If the costs attributed to Outside County in the flats preparation (035) cost pool, rather than being distributed equally over all Outside County flats, were distributed only to the non-carrier route flats, then the flats preparation cost for each non-carrier route flat would be 1.535 cents, instead of 0.81 cents.

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

(a) Confirmed.

(b) The following calculation can be confirmed for the Postal Service version of the Outside County Periodicals cost model (USPS-LR-K-43):

$$\frac{(0.806 \text{ cents / piece}) * (8,266,904,286 \text{ pieces})}{(8,266,904,286 \text{ pieces} - 3,926,284,943 \text{ pieces})} = 1.535 \text{ cents per piece}$$

This modification, however, only addresses mail processing costs. This change would have to be offset by the inclusion of any in-office delivery cost differences that may exist between carrier route presort mail and non-carrier route presort mail. As stated in the response to TW/USPS-T19-1(b), delivery cost estimates have not been included in the model. At least some of the "035 type" tasks described in USPS-T19-2(c) would have to be performed by clerks or carriers in the delivery unit. I am not aware of any studies that were conducted to evaluate the cost differences between opening / prepping non carrier route bundles in plants and opening / prepping carrier route bundles in delivery units.

**RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.**

TW/USPS-T19-5. Please confirm that if instead of distributing the costs of the flats preparation pool equally over all rate categories, you had distributed them only to the non-carrier route rate categories, which are the rate categories that normally use this pool, then the costs would be as shown in the last two columns of the attached table TW/USPS-T19-5. For comparison, the costs from Table 1 in your testimony are shown in the first two columns. Please explain any disagreement.

Table TW/USPS-T19-5: Alternative Estimates of Outside County Periodicals Presort Related Mail Processing Costs (cents per piece)				
Rate Category	From Table 1 in USPS-T-19		Modified By Attributing Flats Preparation Costs to Non-Carrier Route Flats Only	
	Actual	Presort Adjusted	Actual	Presort Adjusted
Nonautomation Basic	23.837	23.837	24.567	24.567
Nonautomation 3-digit	17.663	17.663	18.392	18.392
Nonautomation 5-digit	13.233	13.233	13.962	13.962
Carrier Route	8.669	8.669	7.863	7.863
Automation Basic	24.785	22.442	25.514	23.171
Automation 3-digit	19.080	16.965	19.809	17.694
Automation 5-digit	12.593	12.687	13.322	13.416

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

It can be confirmed that the calculations are correct. However, as stated in the response to TW/USPS-T19-4(b):

"This modification, however, only addresses mail processing costs. This change would have to be offset by the inclusion of any in-office delivery cost differences that may exist between carrier route presort mail and non-carrier route presort mail. As stated in the response to TW/USPS-T21-1(b), delivery cost estimates have not been included in the model. At least some of the "035 type" tasks described in USPS-T19-2(c) would have to be performed by clerks or carriers in the delivery unit. I am not aware of

[R2005-1

RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.

any studies that were conducted to evaluate the cost differences between opening / prepping non carrier route bundles in plants and opening / prepping carrier route bundles in delivery units."

**RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.**

TW/USPS-T19-6. Please refer to the attached table TW/USPS-T19-6, which is similar to table TW/USPS-T19-5 except that it refers to PRC costing. Please confirm that if instead of distributing the (PRC) costs of the flats preparation pool equally over all rate categories, you had distributed them only to the non-carrier route rate categories, which are the rate categories that normally use this pool, then the costs would be as shown in the last two columns of the table. For comparison, the costs from Table 2 in your testimony are shown in the first two columns. Please explain any disagreement.

Table TW/USPS-T19-6: Alternative Estimates of Outside County Periodicals Presort Related Mail Processing Costs (cents per piece - PRC Costing)				
Rate Category	From Table 2 in USPS-T-19		Modified By Attributing Flats Preparation Costs to Non-Carrier Route Flats Only	
	Actual	Presort Adjusted	Actual	Presort Adjusted
Nonautomation Basic	28.070	28.070	28.840	28.840
Nonautomation 3-digit	20.183	20.183	20.953	20.953
Nonautomation 5-digit	14.438	14.438	15.208	15.208
Carrier Route	9.131	9.131	8.279	8.279
Automation Basic	28.715	26.289	29.485	27.060
Automation 3-digit	21.647	19.345	22.417	20.115
Automation 5-digit	13.763	13.878	14.534	14.648

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

It can be confirmed that the calculations are correct. However, as stated in the response to TW/USPS-T19-4(b):

"This modification, however, only addresses mail processing costs. This change would have to be offset by the inclusion of any in-office delivery cost differences that may exist between carrier route presort mail and non-carrier route presort mail. As stated in the response to TW/USPS-T21-1(b), delivery cost estimates have not been included in the model. At least

RESPONSE OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF TIME WARNER INC.

some of the "035 type" tasks described in USPS-T19-2(c) would have to be performed by clerks or carriers in the delivery unit. I am not aware of any studies that were conducted to evaluate the cost differences between opening / prepping non carrier route bundles in plants and opening / prepping carrier route bundles in delivery units."

N2006-1

United States Postal Service

**Pranab Shah
(USPS-T-1)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SHAH
TO INTERROGATORY OF VALPAK**

Revised: July 10, 2006

VP/USPS-T1-6.

Please refer to your testimony at page 13, lines 3-4, where you discuss "the preservation of current service standard definitions."

(a) Please define the following service-related terms as they are currently used by the Postal Service and, if they are not synonymous, explain all critical differences between them:

- i. service standard
- ii. service commitment
- iii. service guarantee
- iv. service objectives (see DMM Section 243.3.1.1)

(b) Please identify and define any other service-related term currently used by the Postal Service.

(c) Please identify which of the above service-related terms are explicitly incorporated in (i) the END optimization models, and (ii) the END simulation models discussed in your testimony.

RESPONSE:

(a)(i) Please review the definition of "service standard" already provided in USPS Library Reference N2006-1/1, at (hard copy) page 107.

(ii) In light of PRC Op. C98-1, postal policy is to regard those "service standards" with service guarantees as "service commitments."

(iii) A "service guarantee" is an explicit promise to refund postage in the event of a failure to meet an applicable service commitment.

(iv) As is the case in the referenced DMM section, the term "service objective" is a commonly used synonym for "service standard."

(b) Other terms that are commonly used in lieu of "service standards" include: "service expectations" and "delivery standards." There is no postal catalogue listing every commonly used synonym. Notwithstanding the response to subpart (a)(ii), many postal employees find it difficult to break

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SHAH
TO INTERROGATORY OF VALPAK

132

Revised: July 10, 2006

RESPONSE to VP/USPS-T1-6 (continued):

the habit of using such terms as "delivery commitments" or "service
commitments" in references to mail classes other than Express Mail.

(c) Service standards.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SHAH
TO INTERROGATORY OF VALPAK

143

VP/USPS-T1-14.

- (d) Please explain how ODIS measures achieved level of service for Standard Mail. In particular, how does ODIS know when pieces of Standard Mail were entered?

RESPONSE:

- (d) It does neither.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SHAH
TO INTERROGATORY OF VALPAK

144

VP/USPS-T1-15.

- (a) Please identify and discuss all current methods by which the Postal Service measures service performance for Standard Mail.
- (b) Please identify and discuss all plans for any new measurements of performance for Standard Mail.

RESPONSE:

- (a-b) I am informed that there is no system in place for measuring service performance for Standard Mail on a systemwide basis and currently no plans for the development of such a system.

C2004-1

United States Postal Service

**Rachel Tang
(USPS-RT-2)**

Postal Rate Commission
Submitted 10/27/2004 4:01 pm
Filing ID: 42206
Accepted 10/27/2004
USPS-RT-2

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**COMPLAINT OF TIME WARNER, INC.
ET AL. CONCERNING PERIODICALS
RATES**

Docket No. C2004-1

**REBUTTAL TESTIMONY
OF
RACHEL TANG
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

[C2004-1]

Table of Contents

1		
2		
3		
4	Autobiographical Sketch.....	ii
5	I. Purpose and Scope of Testimony.....	1
6	II. Background	1
7	III. Impact of Complainants' Proposal	2
8	IV. Rate Design Policy	7
9	V. Comparison Between Periodicals Rate Increases and Consumer Price Index	9

[C2004-1]

1

Autobiographical Sketch

2

3

4

5

6

7

8

9

10

11

12

13

My name is Rachel Tang. I am an economist in the office of Pricing at the United

States Postal Service. Prior to joining the Postal Service in January, 2003, I was

employed by Columbia Energy Group (CEG) in Herndon, VA, from 1998 to 2000. At CEG,

I was a senior analyst in Risk Management. My responsibilities there included structuring,

implementing, monitoring, and evaluating various risk management programs. From 2001

to 2002, I was an independent business consultant to Sino-US Commercial Group and

Chase Merchant Services, LLC.

I received a Master's Degree in Industrial Administration from Carnegie Mellon

University in Pittsburgh, PA in 1998, and a Bachelor's Degree of Science in Business

Administration from City University of New York in Queens, NY.

This is the first time I am testifying before the Postal Rate Commission.

[C2004-1]

Revised: October 27, 2004

1 **I. Purpose and Scope of Testimony**

2 The purpose of my testimony is to examine the impact of the Periodicals rate
3 redesign proposed by complainants in this proceeding.

4 **II. Background**

5 The structural change proposed by the Time Warner complaint would require a
6 large number of publications to alter their mail preparation behavior or face substantial
7 increases that may adversely affect many smaller volume publications. The Postal
8 Service agrees with much of the rationale provided by the complainants for this structural
9 change, but, as in the past, believes that the benefits of significant structural change must
10 be viewed in the light of the impact on affected customers.

11 In prior dockets when the Postal Service proposed and the Commission
12 recommended classification changes that led to de-averaging of rates, both the Postal
13 Service and the Commission were sensitive to the impact on customers, particularly
14 those that could face higher rates. For example, in Docket No. R97-1, the Postal
15 Service's proposal split the 3/5 Digit combined presort into 3-Digit and 5-Digit (Docket No.
16 R97-1, USPS-T-34, at 6-12). In Docket No. R2001-1, the Postal Service introduced
17 another level of dropship discount for mail entered at a Destination Area Distribution
18 Centers (ADC) as well as discounts on dropshipment of editorial pounds (Docket No.
19 R2001-1, USPS-T-34, at 5-9). Also, in Docket No. R2001-1, the Postal Service's
20 proposal included discounts for palletized mail (Docket No. R2001-1, USPS-T-34,
21 at 9-11). A common theme in these dockets was to implement this de-averaging while
22 taking into account the impact on non-participants, and adjusting passthroughs, cost
23 allocations, and markups to mitigate rate increases. See, e.g., R97-1, USPS-T-34 at 7;

[C2004-1]

Revised: October 27, 2004

1 Tr.10/4849; R2001-1, USPS-T-34 at 7-9, 11-12; Tr. 7/1202, 1212-1213, 1221, 1248-1249.
2 Time Warner et al. have not demonstrated that there are ways to successfully mitigate
3 the impact of their proposal.

4 The Postal Service is well aware of the issues relating to mail preparation and the
5 resulting pressure on Periodicals processing costs, and appreciates discussions aimed at
6 improving efficiency for the Periodicals class, including the efforts and thoughts behind
7 the proposal by Time Warner et al. We believe that diverse opinions and their thoughtful
8 articulation aid in the common goal of a vibrant and healthy Periodicals class. However,
9 the classifications proposed by Time Warner et al. could make it difficult to mitigate the
10 impact on those who are not able to make fundamental changes in their mail preparation
11 behavior. The Postal Service believes the benefits of substantive structural changes must
12 be evaluated in the context of other factors such as the impact on non-participants, as
13 well as ease of implementation for all customers and post offices, both large and small.

14 **III. Impact of Complainants' Proposal**

15 The rates proposed in witness Mitchell's testimony (Tr. 3/840) have differing
16 effects on Periodicals publications of different sizes and densities. These effects can be
17 illustrated by dividing Periodicals publications into three groups based on mailed
18 circulation. Small-circulation publications are those with circulations of at most 15,000
19 copies per issue. Medium-circulation publications are those with circulations between
20 15,000 and 100,000 copies per issue. Large-circulation publications are those with
21 circulations above 100,000 copies per issue.

22 In addition to mailed circulation, I divided publications based on density, that is, the
23 geographic concentration of the distribution of a certain publication. Using the percentage

[C2004-1]

Revised: October 27, 2004

1 of mail pieces paying the 5-digit (5D) and/or Carrier Route (CR) rates, I defined high-
2 density publications as publications with more than 30 percent of their mail volume paying
3 5D or CR rates. High-density periodicals with large mailed circulation are usually
4 national publications; those with small circulation tend to be regional publications. Those
5 publications with less than 30 percent of the volume paying 5D or CR rates are defined as
6 low-density publications.

7 I obtained an illustrative sample of publications in each of the three circulation
8 groups. In order to calculate the estimated postage under Time Warner's proposal, it is
9 necessary to obtain data from postage statements, as well as containerization information
10 from either qualification reports or mail.dat files provided by the publications. For some of
11 the sample publications, this information could be retrieved from the PostalOne Electronic
12 verification system. For medium and large publications the sample was drawn from the
13 publications providing mail.dat files to the PostalOne Electronic verification system, with
14 probability proportional to annual volume. For the small publications, information was not
15 available through PostalOne, so I collected data from the corresponding postal business
16 mail entry units where these publications are entered. As a result, the sample of small
17 publications was drawn randomly from the universe of small publications, with probability
18 proportional to annual volume.

19 The result is a random sample of 55 publications drawn from the population of
20 29,979 publications (see Table 5), including 24 small publications, 20 medium
21 publications, and 11 large publications. This sample of publications not only includes
22 publications of different sizes, but also represents various mail characteristics and/or
23 patterns -- some of the publications have very high advertising content, while others have

[C2004-1]

Revised: October 27, 2004

1 none; some are mailed mostly in skin sacks, while some are on pallets and drop shipped
 2 close to their destinations.

3 Assuming the current mailing pattern and characteristics, both current Periodicals
 4 rates¹ and the proposed Time Warner rates were applied, and estimated postage
 5 payments under both sets of rates were calculated. Table 1 shows an overview of the
 6 estimated percentage change in postage under Time Warner's proposed rates.

7 Table 1: Overview of Estimated Postage Change

	Sample Size		Postage Change (%)	
	Low Density	High Density	Low Density	High Density
Small	10	14	0.6% - 67.2%	(5.5%) - 80.0%
Medium	10	10	(22.9%) - 23.7%	(22.3%) - 22.3%
Large	1	10	1.44%	(22.5%) - 2.5%

8
 9 Among the 24 small publications, 20 will face a postage increase ranging from 0.6
 10 percent to 80.0 percent under the Time Warner proposed rate structure and rates. Four
 11 publications will incur a moderate postage decrease between 1.4 percent and 5.5 percent.

¹ This analysis has been performed without considering any increases that could be expected in the future as part of a general rate increase.

[C2004-1]

Revised: October 27, 2004

- 1 Table 2 presents detailed information on the estimated change in postage between
 2 the current rates and the Time Warner proposed rates for these small publications.

3 Table 2: Estimated Postage Change – Small Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage / Piece	% Change
Low	S1	65%	0.276	0.301	0.503	67.18%
Low	S2	75%	0.275	0.286	0.424	47.98%
Low	S3	69%	0.181	0.325	0.429	32.01%
Low	S4	100%	0.357	0.266	0.345	29.55%
Low	S5	100%	2.639	0.767	0.989	28.86%
Low	S6	86%	1.221	0.491	0.553	12.53%
Low	S7	100%	0.107	0.244	0.273	12.00%
Low	S8	59%	0.195	0.304	0.315	3.52%
Low	S9	100%	0.197	0.337	0.341	1.27%
Low	S10	97%	0.110	0.229	0.230	0.55%
High	S11	68%	0.161	0.292	0.526	80.00%
High	S12	47%	0.190	0.222	0.335	50.80%
High	S13	60%	0.465	0.256	0.352	37.29%
High	S14	71%	0.405	0.255	0.338	32.64%
High	S15	97%	0.389	0.261	0.316	21.00%
High	S16	41%	0.282	0.231	0.260	12.51%
High	S17	96%	0.460	0.283	0.317	11.99%
High	S18	100%	0.075	0.214	0.234	9.35%
High	S19	75%	0.150	0.186	0.203	8.98%
High	S20	26%	1.903	0.647	0.674	4.10%
High	S22	90%	0.061	0.134	0.132	-1.38%
High	S21	35%	0.127	0.250	0.242	-3.18%
High	S23	42%	0.483	0.324	0.310	-4.26%
High	S24	33%	1.200	0.416	0.393	-5.46%

- 4
 5
 6 Table 3 shows the postage impact of the Time Warner proposed rate structure and
 7 rates upon the 20 medium-size publications. The estimated postage changes are more
 8 evenly dispersed in terms of their magnitude as well as direction. These estimated
 9 postage changes range from a 22.9 percent decrease to a 23.7 percent increase.

[C2004-1]

Revised: October 27, 2004

1 Table 3: Estimated Postage Change – Medium Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage / Piece	% Change
Low	M1	100%	0.452	0.283	0.350	23.66%
Low	M2	96%	0.383	0.274	0.311	13.29%
Low	M3	50%	0.696	0.446	0.501	12.36%
Low	M4	40%	0.529	0.406	0.414	2.04%
Low	M5	27%	1.996	0.933	0.911	-2.34%
Low	M6	45%	1.195	0.533	0.507	-4.86%
Low	M7	61%	0.649	0.309	0.272	-11.82%
Low	M8	50%	0.488	0.261	0.229	-12.44%
Low	M10	57%	0.556	0.241	0.186	-22.65%
Low	M9	62%	0.418	0.198	0.153	-22.87%
High	M11	85%	0.396	0.275	0.336	22.31%
High	M12	100%	0.574	0.268	0.307	14.63%
High	M13	62%	0.184	0.222	0.253	13.73%
High	M14	41%	0.980	0.473	0.506	7.04%
High	M15	51%	0.758	0.425	0.452	6.49%
High	M16	50%	0.418	0.309	0.327	5.73%
High	M17	50%	0.491	0.280	0.254	-9.28%
High	M18	61%	0.414	0.215	0.186	-13.26%
High	M19	51%	0.581	0.248	0.204	-17.78%
High	M20	58%	0.544	0.228	0.177	-22.26%

2

3

4 The estimated postage impact of the Time Warner structure and rates on the large
5 publications, on the other hand, seems to be more consistent, with all but two publications
6 paying less postage under the Time Warner rate structure, as shown in Table 4.

7 Table 4: Estimated Postage Change – Large Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage / Piece	% Change
Low	L1	55%	0.389	0.330	0.334	1.44%
High	L2	85%	0.461	0.273	0.280	2.48%
High	L3	75%	0.470	0.271	0.255	-6.02%
High	L4	50%	0.410	0.242	0.217	-10.52%
High	L5	67%	0.278	0.179	0.160	-10.56%
High	L7	60%	1.481	0.479	0.426	-11.06%
High	L8	60%	0.591	0.239	0.209	-12.36%
High	L6	64%	0.417	0.210	0.180	-14.60%
High	L10	45%	0.896	0.312	0.253	-18.98%
High	L9	57%	0.531	0.235	0.188	-19.69%
High	L11	61%	0.427	0.199	0.154	-22.51%

8

[C2004-1]

Revised: October 27, 2004

1 The Postal Service recognizes that the results presented in Tables 1-4 are not
2 based on a statistically random selection of publications. However, these results do
3 indicate the range of potential impacts on different types of publications.

4 With over 80 percent of the small publication sample facing potential postage
5 increases, the Postal Service is concerned about the rate impact on this group of
6 publications. In this sample, 58 percent of the small publications will face at least a 10
7 percent postage increase, 29 percent will face over a 30 percent postage increase, and
8 13 percent will face over a 50 percent postage increase. The results suggest, in no subtle
9 fashion, that small publications are the ones most vulnerable under the rate structure and
10 rates proposed by Time Warner et al.

11 **IV. Rate Design Policy**

12 The aforementioned sampling and assessment listed comparable numbers of
13 sample publications for different size groups to get an even feel of the impact. However,
14 the 55 sample publications, randomly drawn from 29,979 publications, do not depict the
15 true proportion in terms of titles and mail volume in the Periodicals class.

16 As presented in Table 5, the distribution of titles and annual volumes shows that
17 small publications represent 12 percent of the total volume but 84 percent of the titles.
18 Large publications, on the other hand, represent 3 percent of the titles but 68 percent of
19 the total volume. This distribution suggests that Periodicals ratemaking must consider the
20 full range of publication sizes. Even if the impact of a change might fall on less than 10
21 percent of the total volume, that 10 percent could represent more than 20,000 small
22 Periodicals publications, and a large proportion of the editorial content in Periodicals.

23

[C2004-1]

Revised: October 27, 2004

1 Table 5: Count of Periodicals Titles & Volume²

Publication Size	Count of Titles	% of Total Titles	Total Pieces	% of Total Pieces
Small	25,234	84%	1,145,511,644	12%
Medium	3,816	13%	1,871,810,847	20%
Large	929	3%	6,313,661,606	68%
Total	29,979	100%	9,330,984,097	100%

Note:

1. All publications with only within-county volume are excluded.

2. All publications with no reported frequency of issuance are excluded.

2
3 There is no doubt that increasing efficiency is an important aspect of rate design
4 and should be assigned considerable weight. In fact, we believe there is considerably
5 more that can be done to advance such efficiency. However, before major classification
6 changes are presented to the Commission, the Postal Service believes that other issues
7 along with efficiency should be addressed, such as the impact on customers, operational
8 readiness, and implementation, as well as the public policy goals for Periodicals. In
9 considering appropriate rate design, the Postal Service believes a broad approach
10 considering a variety of policy goals is needed. In this regard, the Postal Service believes
11 that redesign of rate structures cannot be fully assessed or accomplished without a
12 simultaneous design of the actual rates for the structure. This redesign needs to take into
13 account revenue leakage from existing activities to ensure that the revenue target is
14 achieved, especially in subclasses with a lean cost coverage.

15 The Postal Service has been striving to improve efficiency and contain cost
16 increases for Periodicals. And we appreciate the efforts of Time Warner et al. to work with
17 us in past and ongoing efforts. Periodicals rate design has helped with these goals by
18 sending consistent and positive signals to the Periodicals community – introduction of
19 various worksharing discounts, e.g. dropship discounts and pallet discounts, and the

² Source: FY2003 PERMIT Mailing System data

[C2004-1]

Revised: October 27, 2004

1 recent co-palletization experiments (Docket Nos. MC2002-3 and MC2004-1). In fact, one
2 can argue that in the past few years, Periodicals have received the most attention in
3 terms of structural changes designed to improve efficiency, as compared to other classes.
4 However, the *Postal Service* recognizes that more improvements are in order and more
5 can be expected in the future.

6 The Postal Service proposes rate design and structure changes only after
7 seriously considering and carefully weighing all the important ratemaking elements and
8 public policy considerations. The signals to be sent to the publishing and mailing
9 community through rate design should be consistent and positive. A balanced approach
10 with consistent steps to send the right signals and encourage better mail preparation and
11 more worksharing can enhance efficiency without sacrificing the broad diversity of
12 editorial content in Periodicals.

13 **V. Comparison Between Periodicals Rate Increases and Consumer Price Index**

14 Witness Mitchell poses what he calls "the obvious threshold question": "what is so
15 wrong with the Periodicals rates as to justify a complaint proceeding seeking to effect
16 their reform?" Tr. 3/800. In responding to this question, witness Mitchell discusses
17 increases in Periodicals rates, stating:

18

19 Over a period that extends back into the 1980s, the increases in
20 Periodicals rates have been greater than the increases in the Consumer
21 Price Index, even after the reduced markups recommended by the
22 Commission. The fact that this has been occurring makes it all the more
23 important to search for other avenues of progress, on which this complaint
24 focuses.
25

[C2004-1]

Revised: October 27, 2004

1 *Id.* Then he describes this phenomenon in detail, under the heading of "Periodicals
2 Rates Have Been Increasing Too Rapidly," by comparing a CPI-U³ index to "an index of
3 Periodicals rates, at a constant markup index". (Docket No. C2004-1, TW et al.-T-1, at 10)
4 He concludes that Periodicals rates have been rising too rapidly, especially in the light of
5 technological changes made by the Postal Service and mail preparation changes made
6 by mailers resulting in cost reductions. Tr. 3/806-08.

7 While witness Mitchell accurately describes the data, interpreting this data requires
8 broadening this picture a bit. In fact, witness Mitchell alludes to a broader approach in
9 footnote 4 on pages 11 and 12 of his testimony, Tr. 3/808-09. In this context, the relevant
10 data are the actual postage paid by the mailers as reflected in revenue per piece for the
11 Outside County subclass. When the revenue-per-piece ratio is indexed, the spread
12 between CPI-U and the revenue-per-piece index is substantially closer than implied by
13 witness Mitchell's comparison. Further, if these two indices are compared using rates
14 resulting from Docket No. R94-1 as the base, the increase in the revenue-per-piece index
15 is actually lower than the change in the CPI-U index. (See Table 6: Revenue-per-Piece vs.
16 CPI-U.) The revenue-per-piece ratio reflects changes in mail mix, especially due to
17 worksharing that is paid for by the mailers, with the actual expenditure by the mailer
18 including both postage and the cost of worksharing activities. Changes in rate design
19 resulting from recent rate cases have not simply been across-the-board increases, but
20 have also provided mailers with opportunities to avoid postage increases through limited
21 changes in their mail preparations practices.

³ CPI-U stands for Consumer Price Index – All Urban Consumers.

[C2004-1]

Revised: October 27, 2004

1 Table 6: Revenue-per-Piece⁴ vs. CPI-U⁵

Year	Revenue (000's)	Piece (000's)	Revenue/Piece	Rev/Pc Index	CPI Index
1995	\$ 1,874,876	9,287,048	\$ 0.202	100%	100%
1996	\$ 1,917,424	9,248,366	\$ 0.207	103%	103%
1997	\$ 1,964,605	9,464,357	\$ 0.208	103%	105%
1998	\$ 1,972,901	9,392,726	\$ 0.210	104%	107%
1999	\$ 2,017,696	9,380,373	\$ 0.215	107%	109%
2000	\$ 2,076,257	9,467,716	\$ 0.219	109%	113%
2001	\$ 2,106,875	9,198,266	\$ 0.229	113%	116%
2002	\$ 2,066,900	8,839,847	\$ 0.234	116%	118%

2
3

4 In summary, the Postal Service appreciates efforts to improve efficiency in
5 Periodical rate design. As we go forward in identifying the relevant cost-driving
6 characteristics that can be incorporated into the rate design, we must balance a number
7 of considerations, including the impact on customers. While we work with the diverse
8 group of customers to improve the Periodicals class, we believe it is premature to
9 determine the particular rate structure to be employed.

10

⁴ Source: USPS RPW data

⁵ Source: Bureau of Labor Statistics data

RESPONSE OF POSTAL SERVICE WITNESS TANG TO NOTICE OF INQUIRY NO. 1**I. Postal Service**

Postal Service witness Tang testified (USPS-RT-2 at 8) that there are over 25,000 titles with circulation of less than 15,000 per issue. These titles account for 12 percent of Outside County volume.

Please provide as much of the following information as possible:

1. What is the mean and median circulation of publications in this group?
2. A distribution of these titles into the following circulation categories:
 - a. 15,000 – 10,001
 - b. 10,000 – 5001
 - c. 5000 – 1001
 - d. 1000 or under
3. The percent that is nonprofit?
4. The percent that is published weekly or more frequently?
5. The percent that contains more than 10 percent advertising material?
6. Please provide a volume distribution by processing category (i.e., letters, flats, automation flats, irregular parcels).
7. A distribution of pieces by presort category (i.e., basic, 3-digit, 5-digit, carrier route).
8. A distribution of pieces by weight.
9. A distribution of pieces by zone.
10. A distribution of pieces by container type.

RESPONSE:

To answer the above inquiries on the publications with mailed circulation of less than 15,000 per issue, the PERMIT system was used to retrieve Periodicals postage statement Form 3541 information from FY 2003 for a total of 25,191 publications. These 25,191 publications count for over 99.8% of the 25,234 small publications in Table 5 in my original rebuttal testimony (USPS-RT-2). The reason that 43 publications were not included is that, in the PERMIT system, these publications are shown with zero copy weight for FY 2003. This can happen when piece weight is rounded to the nearest

[C2004-1]

RESPONSE OF POSTAL SERVICE WITNESS TANG TO NOTICE OF INQUIRY NO. 1

pound on the postage statement. Therefore, it was impossible to calculate the advertising percent or the piece weight for these 43 publications.

Since 43 out of over 25,000 publications is such a tiny proportion, the following data on 25,191 publications should be sufficient to show the characteristics of the small publications with mailed circulation of less than 15,000.

Based on the information, and my understanding of the participants in this proceeding, I do not believe that most of these publications are directly represented by any of the participants. I believe that the following responses provide a better understanding of these publications, which is useful in evaluating various rate and classification proposals.

Item 1-2:

Mean and median mailed circulation of small publications
Distribution of titles into mailed circulation categories

Circulation per Issue	Count of Titles	Mean	Median
0 to 1,000	15,152	307	224
1,001 to 5,000	6,821	2,373	2,081
5,001 to 10,000	2,114	7,109	6,984
10,001 to 15,000	1,104	12,277	12,135
Total (FY2003)	25,191	1,962	608

Note: The count of titles shows the USPS publication number and acceptance office combinations, which is consistent with the methodology employed by the analysis in my rebuttal testimony (USPS-RT-2). Detailed explanation was provided in my response to the interrogatories of Time Warner Inc. et al. (TW et al./USPS-RT2-9 b-c).

RESPONSE OF POSTAL SERVICE WITNESS TANG TO NOTICE OF INQUIRY NO. 1

Item 3:

Percent of non-profit publications

Circulation per Issue	Commercial	% Commercial	Nonprofit	% Nonprofit
0 to 1,000	10,736	70.9%	4,416	29.1%
1,001 to 5,000	4,519	66.3%	2,302	33.7%
5,001 to 10,000	1,435	67.9%	679	32.1%
10,001 to 15,000	718	65.0%	386	35.0%
All Publications (FY 2003)	17,408	69.1%	7,783	30.9%

Item 4:

Percent of weekly or more frequently published publications

Circulation per Issue	Published Weekly or More Frequently		Other	
		Percentage		Percentage
0 to 1,000	4,149	27.4%	11,003	72.6%
1,001 to 5,000	1,558	22.8%	5,263	77.2%
5,001 to 10,000	280	13.2%	1,834	86.8%
10,001 to 15,000	85	7.7%	1,019	92.3%
All Publications (FY 2003)	6,072	24.1%	19,119	75.9%

Item 5:

Percent containing more than 10 percent advertising material

Circulation per Issue	More than 10% Ad	Percentage	No more than 10% Ad	Percentage
0 to 1,000	6,475	42.7%	8,677	57.3%
1,001 to 5,000	3,726	54.6%	3,095	45.4%
5,001 to 10,000	1,410	66.7%	704	33.3%
10,001 to 15,000	763	69.1%	341	30.9%
All Publications (FY 2003)	12,374	49.1%	12,817	50.9%

Item 6:

Information on the volume distribution by processing category (i.e., letters, flats, automation flats, irregular parcels) is not available.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO NOTICE OF INQUIRY NO. 1

Item 7:

Distribution of pieces by presort category

Circulation per Issue	Basic	3-Digit	5-Digit	CR
0 to 1,000	42.9%	28.1%	23.3%	5.7%
1,001 to 5,000	26.8%	30.5%	24.4%	18.3%
5,001 to 10,000	16.9%	36.4%	27.1%	19.6%
10,001 to 15,000	11.5%	35.8%	30.9%	21.8%
All Publications (FY 2003)	24.5%	32.5%	26.2%	16.8%

Item 8:

Distribution of pieces by weight increment

Weight Increment	Circulation Size				
	0 to 1,000	1,001 to 5,000	5,001 to 10,000	10,001 to 15,000	All Publications
0 to 1 oz	9.9%	8.5%	10.3%	14.4%	10.5%
1 to 2 oz	3.9%	9.6%	13.9%	11.1%	9.9%
2 to 3 oz	6.4%	8.1%	12.4%	10.9%	9.5%
3 to 4 oz	7.3%	9.1%	11.0%	14.3%	10.4%
4 to 5 oz	9.3%	10.7%	9.2%	9.8%	9.9%
5 to 6 oz	8.5%	7.5%	10.2%	10.6%	9.0%
6 to 7 oz	8.9%	9.1%	8.1%	6.7%	8.3%
7 to 8 oz	6.1%	7.5%	6.5%	9.0%	7.3%
8 to 9 oz	18.4%	10.0%	3.7%	3.1%	8.5%
9 to 10 oz	3.7%	4.5%	3.6%	3.1%	3.8%
10 to 11 oz	2.6%	4.0%	2.4%	1.8%	2.9%
11 to 12 oz	2.8%	2.4%	2.2%	1.2%	2.1%
12 to 13 oz	1.7%	1.7%	1.2%	0.6%	1.4%
13 to 14 oz	1.4%	1.2%	1.3%	0.8%	1.2%
14 to 15 oz	1.4%	0.8%	0.7%	0.7%	0.9%
15 to 16 oz	0.6%	1.1%	0.3%	0.3%	0.6%
16 to 17 oz	0.8%	0.3%	0.5%	0.2%	0.4%
17 to 18 oz	0.8%	0.3%	0.4%	0.1%	0.4%
18 to 19 oz	0.7%	0.6%	0.0%	0.1%	0.4%
19 to 20 oz	1.1%	0.2%	0.1%	0.2%	0.4%
20 to 21 oz	0.3%	0.5%	0.1%	0.0%	0.3%
21 to 22 oz	0.8%	0.5%	0.0%	0.1%	0.4%
22 to 23 oz	0.4%	0.2%	0.1%	0.0%	0.2%
23 to 24 oz	0.2%	0.1%	0.1%	0.0%	0.1%
Over 24 oz	2.2%	1.5%	1.5%	0.8%	1.5%

RESPONSE OF POSTAL SERVICE WITNESS TANG TO NOTICE OF INQUIRY NO. 1

Item 9:

Distribution of pieces by zone

Circulation per Issue	DDU	DSCF	DADC	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	100% Editorial
0 to 1,000	1%	24%	1%	31%	7%	5%	6%	3%	2%	3%	18%
1,001 to 5,000	3%	16%	1%	25%	8%	7%	7%	4%	2%	4%	22%
5,001 to 10,000	3%	10%	2%	18%	8%	9%	9%	4%	3%	4%	29%
10,001 to 15,000	3%	11%	2%	18%	7%	10%	10%	5%	3%	4%	28%
All Publications	2%	15%	2%	23%	7%	8%	8%	4%	2%	4%	24%

Note: Publications with 100% editorial content are combined in the last column because zone distribution of such publications is not available. This includes nonprofit publications with less than 10% advertising content, which are treated as 100% editorial.

Item 10:

Distribution of pieces by container type

Circulation per Issue	Pallet	Sack
0 to 1,000	0.9%	99.1%
1,001 to 5,000	3.1%	96.9%
5,001 to 10,000	11.7%	88.3%
10,001 to 15,000	17.4%	82.6%
All Publications (FY 2003)	7.7%	92.3%

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Item 1. Attachments 1 and 2 represent the data from Tables 2, 3 and 4 in USPS-RT-2. We have run the regression that appears in Attachment 2, using dummy variables for "Publication ID" (size) and "Density." Please run this regression replacing the dummy variables identified as "Small" and "Medium" with the natural log of the actual values for size, and replacing the dummy variable for "Low" density with the natural log of the actual values used to categorize publications as low or high density. Please provide the regression results within two weeks.

RESPONSE:

First of all, I would like to present a revised summary for the 55 observations (see, attached to this response, Table 1: Revised 55 Observations). Shaded area indicates revised values. Corrections have been made that alter some of results, including the postage change percentages, though deviation from the previous data appears moderate. Revisions to my rebuttal testimony have been filed separately.

Using the revised values, I reran the regression that appears in Table 2 (see Table 2: Regression with Dummy Variables – 55 Observations) that replicates Attachment 2 in POIR No.2.

I then replaced the dummy variables identified as "Small" and "Medium" with the natural log of the actual values for issue size. I also replaced the dummy variable for "Low" density with the natural log of the actual values previously used to categorize publications as low or high density, that is, the percentage of mail pieces paying the 5-digit and/or Carrier Route rates. With all the dummy variables replaced, I ran the regression once again, and the results are presented in Table 3 (see Table 3: Regression with Actual Values – 55 Observations). Please note that $(1 + \text{Density})$ is used to avoid taking the natural log of zero.

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Although I have attempted to provide the type of results requested in Items 1-3, the POIR does not provide a sufficient basis to understand fully why those particular results were requested. No explanation was provided in terms of issues such as the model specification, the choice of variables, the functional form, or similar matters commonly associated with regression analysis. Without the appropriate context, I cannot endorse or comment on the methodology.

Revised: Oct. 28, 2004

**REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2**

Table 1: Revised 55 Observations

Number of Observation	Publication ID	Density	Editorial Content	Piece Weight	Postage per Piece	TW Postage per Piece	% Change
1	S1	Low	65%	0.276	0.301	0.503	67.18%
2	S2	Low	75%	0.275	0.286	0.424	47.98%
3	S3	Low	69%	0.181	0.325	0.429	32.01%
4	S4	Low	100%	0.357	0.266	0.345	29.55%
5	S5	Low	100%	2.639	0.767	0.989	28.86%
6	S6	Low	86%	1.221	0.491	0.553	12.53%
7	S7	Low	100%	0.107	0.244	0.273	12.00%
8	S8	Low	59%	0.195	0.304	0.315	3.52%
9	S9	Low	100%	0.197	0.337	0.341	1.27%
10	S10	Low	97%	0.110	0.229	0.230	0.55%
11	S11	High	68%	0.161	0.292	0.526	80.00%
12	S12	High	47%	0.190	0.222	0.335	50.80%
13	S13	High	60%	0.465	0.256	0.352	37.29%
14	S14	High	71%	0.405	0.255	0.338	32.64%
15	S15	High	97%	0.389	0.261	0.316	21.00%
16	S16	High	41%	0.282	0.231	0.260	12.51%
17	S17	High	96%	0.460	0.283	0.317	11.99%
18	S18	High	100%	0.075	0.214	0.234	9.35%
19	S19	High	75%	0.150	0.186	0.203	8.98%
20	S20	High	26%	1.903	0.647	0.674	4.10%
21	S21	High	35%	0.127	0.250	0.242	-3.18%
22	S22	High	90%	0.061	0.134	0.132	-1.38%
23	S23	High	42%	0.483	0.324	0.310	-4.26%
24	S24	High	33%	1.200	0.416	0.393	-5.46%
25	M1	Low	100%	0.452	0.283	0.350	23.66%
26	M2	Low	96%	0.383	0.274	0.311	13.29%
27	M3	Low	50%	0.696	0.446	0.501	12.36%
28	M4	Low	40%	0.529	0.406	0.414	2.04%
29	M5	Low	27%	1.996	0.933	0.911	-2.34%
30	M6	Low	45%	1.195	0.533	0.507	-4.86%
31	M7	Low	61%	0.649	0.309	0.272	-11.82%
32	M8	Low	50%	0.488	0.261	0.229	-12.44%
33	M9	Low	62%	0.418	0.198	0.153	-22.87%
34	M10	Low	57%	0.556	0.241	0.186	-22.65%
35	M11	High	85%	0.396	0.275	0.336	22.31%
36	M12	High	100%	0.574	0.268	0.307	14.63%
37	M13	High	62%	0.184	0.222	0.253	13.73%
38	M14	High	41%	0.980	0.473	0.506	7.04%
39	M15	High	51%	0.758	0.425	0.452	6.49%
40	M16	High	50%	0.418	0.309	0.327	5.73%
41	M17	High	50%	0.491	0.280	0.254	-9.28%
42	M18	High	61%	0.414	0.215	0.186	-13.26%
43	M19	High	51%	0.581	0.248	0.204	-17.78%
44	M20	High	58%	0.544	0.228	0.177	-22.26%
45	L1	Low	55%	0.389	0.330	0.334	1.44%
46	L2	High	85%	0.461	0.273	0.280	2.48%
47	L3	High	75%	0.470	0.271	0.255	-6.02%
48	L4	High	50%	0.410	0.242	0.217	-10.52%
49	L5	High	67%	0.278	0.179	0.160	-10.56%
50	L6	High	64%	0.417	0.210	0.180	-14.60%
51	L7	High	60%	1.481	0.479	0.426	-11.06%
52	L8	High	60%	0.591	0.239	0.209	-12.36%
53	L9	High	57%	0.531	0.235	0.188	-19.69%
54	L10	High	45%	0.896	0.312	0.253	-18.98%
55	L11	High	61%	0.427	0.199	0.154	-22.51%

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 2: Regression with Dummy Variables – 55 Observations

Regression Output:

Constant 0.3385
Std Error of Y Est 0.1455
R Squared 0.5026
of Observations 55
Degrees of Freedom 48

	Small	Medium	Low	Ln (%Editorial)	Ln (Weight)	Ln (Postage)
X Coefficients	0.2028	0.0861	-0.0638	0.1803	-0.0991	0.3194
Std Err of Coef.	0.0640	0.0583	0.0493	0.0679	0.0489	0.1095
t-value	3.1685	1.4760	-1.2928	2.6572	-2.0250	2.9178

Ln (1+%Change)	Small	Medium	Low	Ln (%Editorial)	Ln (Weight)	Ln (Postage)	Standard Residual
0.5139	1.0000	0.0000	1.0000	-0.4320	-1.2883	-1.2013	2.6988
0.3919	1.0000	0.0000	1.0000	-0.2865	-1.2917	-1.2502	1.7296
0.2777	1.0000	0.0000	1.0000	-0.3694	-1.7101	-1.1228	0.4076
0.2589	1.0000	0.0000	1.0000	0.0000	-1.0313	-1.3224	0.7400
0.2536	1.0000	0.0000	1.0000	-0.0030	0.9702	-0.2647	-0.3120
0.1181	1.0000	0.0000	1.0000	-0.1543	0.1998	-0.7110	-0.6184
0.1133	1.0000	0.0000	1.0000	0.0000	-2.2387	-1.4119	-0.9846
0.0346	1.0000	0.0000	1.0000	-0.5265	-1.6344	-1.1913	-0.9439
0.0127	1.0000	0.0000	1.0000	0.0000	-1.6236	-1.0875	-2.0294
0.0054	1.0000	0.0000	1.0000	-0.0305	-2.2073	-1.4740	-1.5636
0.5878	1.0000	0.0000	0.0000	-0.3857	-1.8264	-1.2310	2.3925
0.4108	1.0000	0.0000	0.0000	-0.7546	-1.6607	-1.5046	2.3437
0.3169	1.0000	0.0000	0.0000	-0.5188	-0.7661	-1.3614	1.6620
0.2825	1.0000	0.0000	0.0000	-0.3420	-0.9038	-1.3668	1.0920
0.1907	1.0000	0.0000	0.0000	-0.0288	-0.9442	-1.3439	-0.0714
0.1179	1.0000	0.0000	0.0000	-0.8846	-1.2656	-1.4642	0.5706
0.1133	1.0000	0.0000	0.0000	-0.0367	-0.7765	-1.2623	-0.6939
0.0894	1.0000	0.0000	0.0000	0.0000	-2.5927	-1.5418	-1.5770
0.0860	1.0000	0.0000	0.0000	-0.2877	-1.8966	-1.6818	-0.3949
0.0402	1.0000	0.0000	0.0000	-1.3453	0.6433	-0.4349	-0.4078
-0.0323	1.0000	0.0000	0.0000	-1.0586	-2.0614	-1.3863	-1.0509
-0.0139	1.0000	0.0000	0.0000	-0.1059	-2.7924	-2.0087	-1.2479
-0.0435	1.0000	0.0000	0.0000	-0.8636	-0.7277	-1.1277	-1.0281
-0.0562	1.0000	0.0000	0.0000	-1.1180	0.1820	-0.8771	-0.7130
0.2124	0.0000	1.0000	1.0000	0.0000	-0.7947	-1.2618	1.2814
0.1248	0.0000	1.0000	1.0000	-0.0396	-0.9590	-1.2933	0.6496
0.1165	0.0000	1.0000	1.0000	-0.6931	-0.3621	-0.8068	0.7468
0.0202	0.0000	1.0000	1.0000	-0.9165	-0.6361	-0.9022	0.3627
-0.0237	0.0000	1.0000	1.0000	-1.3068	0.6913	-0.0693	-0.4251
-0.0498	0.0000	1.0000	1.0000	-0.7984	0.1782	-0.6299	-0.3489
-0.1258	0.0000	1.0000	1.0000	-0.5019	-0.4325	-1.1759	-0.4626
-0.1329	0.0000	1.0000	1.0000	-0.6931	-0.7174	-1.3422	-0.0806
-0.2597	0.0000	1.0000	1.0000	-0.4779	-0.8724	-1.6205	-0.7530
-0.2568	0.0000	1.0000	1.0000	-0.5626	-0.5865	-1.4231	-0.8735
0.2014	0.0000	1.0000	0.0000	-0.1662	-0.9274	-1.2910	0.9273
0.1365	0.0000	1.0000	0.0000	0.0000	-0.5557	-1.3165	0.5634
0.1286	0.0000	1.0000	0.0000	-0.4757	-1.6935	-1.5045	0.7474
0.0681	0.0000	1.0000	0.0000	-0.8809	-0.0202	-0.7496	0.2892
0.0629	0.0000	1.0000	0.0000	-0.6666	-0.2764	-0.8566	0.0340
0.0557	0.0000	1.0000	0.0000	-0.6976	-0.8718	-1.1747	0.3329
-0.0974	0.0000	1.0000	0.0000	-0.6931	-0.7121	-1.2735	-0.4436
-0.1422	0.0000	1.0000	0.0000	-0.4901	-0.8831	-1.5385	-0.5436
-0.1957	0.0000	1.0000	0.0000	-0.6686	-0.5428	-1.3954	-0.7865
-0.2518	0.0000	1.0000	0.0000	-0.5408	-0.6087	-1.4784	-1.2172
0.0143	0.0000	0.0000	1.0000	-0.5898	-0.9431	-1.1098	0.7791
0.0245	0.0000	0.0000	0.0000	-0.1574	-0.7744	-1.2976	0.3796
-0.0620	0.0000	0.0000	0.0000	-0.2935	-0.7550	-1.3052	-0.0408
-0.1112	0.0000	0.0000	0.0000	-0.6931	-0.8916	-1.4181	0.2905
-0.1116	0.0000	0.0000	0.0000	-0.3985	-1.2800	-1.7216	0.3239
-0.1578	0.0000	0.0000	0.0000	-0.4439	-0.8747	-1.5583	-0.0381
-0.1172	0.0000	0.0000	0.0000	-0.5143	0.3928	-0.7368	-0.6469
-0.1319	0.0000	0.0000	0.0000	-0.5188	-0.5252	-1.4324	0.2083
-0.2193	0.0000	0.0000	0.0000	-0.5602	-0.6324	-1.4500	-0.4106
-0.2105	0.0000	0.0000	0.0000	-0.8068	-0.1103	-1.1656	-0.3077
-0.2551	0.0000	0.0000	0.0000	-0.4918	-0.8516	-1.6142	-0.5374

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 3: Regression with Actual Values – 55 Observations

Regression Output:

Constant	0.7005
Std Error of Y Est	0.1469
R Squared	0.4822
# of Observations	55
Degrees of Freedom	49
	Ln (Issue Size) Ln (1+Density)* Ln (%Editorial) Ln (Weight) Ln (Postage)
X Coefficients	-0.0320 0.1667 0.1872 -0.1352 0.3555
Std Err of Coef.	0.0107 0.1209 0.0686 0.0478 0.1079
t-value	-2.9941 1.3782 2.7286 -2.8302 3.2959

	Ln (Issue Size)	Ln (1+Density)*	Ln (%Editorial)	Ln (Weight)	Ln (Postage)	Standard Residual
0.5139	8.2204	0.2393	-0.4320	-1.2883	-1.2013	2.6482
0.3919	7.1713	0.0900	-0.2865	-1.2917	-1.2502	1.6404
0.2777	8.8716	0.2037	-0.3694	-1.7101	-1.1228	0.4615
0.2589	10.3722	0.2252	-0.0396	-0.9590	-1.2933	1.3626
0.2536	9.1931	0.0127	0.0000	-1.0313	-1.3224	1.2589
0.1181	8.8975	0.2222	-0.0030	0.9702	-0.2647	-0.7756
0.1133	8.4537	0.1522	-0.1543	0.1998	-0.7110	-0.2360
0.0346	8.5054	0.0320	0.0000	-2.2387	-1.4119	-1.4252
0.0127	8.7147	0.0921	-0.5265	-1.6344	-1.1913	-0.8778
0.0054	4.5841	0.0000	0.0000	-1.6236	-1.0875	-2.7225
0.5878	7.4413	0.2390	-0.0305	-2.2073	-1.4747	2.2678
0.4108	5.9890	0.3030	-0.3857	-1.8291	-1.2305	0.8147
0.3169	5.7193	0.2820	-0.7546	-1.6607	-1.5046	1.4596
0.2825	7.5513	0.6131	-0.5188	-0.7661	-1.3614	1.4236
0.1907	6.7158	0.5906	-0.3420	-0.9038	-1.3668	0.2474
0.1179	7.2872	0.1924	-0.0288	-0.9453	-1.3439	-0.1845
0.1133	7.7218	0.6399	-0.8846	-1.2656	-1.4642	0.4896
0.0894	6.2382	0.1631	-0.0202	-0.7765	-1.2609	-0.6528
0.0860	7.9039	0.3457	0.0000	-2.5927	-1.5400	-1.5853
0.0402	8.0881	0.5777	-0.2877	-1.8966	-1.6818	-0.7296
-0.0323	5.2919	0.4797	-1.3453	0.6433	-0.4349	-1.0700
-0.0139	8.5588	0.3642	-1.0586	-2.0614	-1.3873	-0.6300
-0.0435	9.1220	0.6279	-0.1059	-2.7924	-2.0087	-1.4288
-0.0562	8.1309	0.4293	-0.8636	-0.7277	-1.1277	-0.7398
0.2124	8.1286	0.5832	-1.1180	0.1820	-0.8774	1.5783
0.1248	10.2592	0.2483	0.0000	-0.7947	-1.2618	0.3768
0.1165	11.0904	0.2350	-0.6931	-0.3621	-0.8068	0.7130
0.0202	8.1794	0.2541	-0.9165	-0.6361	-0.9022	-0.3875
-0.0237	10.7949	0.2395	-1.3068	0.6913	-0.0693	-0.3969
-0.0498	9.9932	0.1437	-0.7984	0.1782	-0.6299	-0.4043
-0.1258	11.3041	0.2611	-0.5019	-0.4325	-1.1759	-0.3868
-0.1328	10.0496	0.0789	-0.6931	-0.7174	-1.3422	-0.1037
-0.2597	9.8751	0.0325	-0.4779	-0.8724	-1.6205	-0.7262
-0.2568	9.8296	0.0108	-0.5626	-0.5865	-1.4231	-0.8020
0.2014	11.3456	0.4876	-0.1662	-0.9274	-1.2910	1.0562
0.1365	11.2458	0.5105	0.0000	-0.5557	-1.3165	0.7437
0.1286	11.2313	0.4407	-0.4757	-1.6935	-1.5045	0.7821
0.0681	11.2922	0.3595	-0.8809	-0.0202	-0.7496	0.7007
0.0629	11.2917	0.4433	-0.6666	-0.2764	-0.8566	0.3015
0.0557	10.4952	0.4026	-0.6976	-0.8718	-1.1747	0.3906
-0.0974	10.6676	0.5108	-0.6931	-0.7121	-1.2735	-0.3934
-0.1422	10.8825	0.6671	-0.4901	-0.8831	-1.5385	-0.6140
-0.1957	10.8569	0.6285	-0.6686	-0.5428	-1.3954	-0.7523
-0.2518	11.4030	0.6281	-0.5408	-0.6087	-1.4784	-1.0508
0.0143	11.6585	0.2607	-0.5898	-0.9431	-1.1098	0.1522
0.0245	12.6849	0.3487	-0.1574	-0.7743	-1.2976	0.4170
-0.0620	13.1410	0.6288	-0.2935	-0.7551	-1.3052	-0.2106
-0.1112	12.3359	0.6378	-0.6931	-0.8916	-1.4181	-0.0673
-0.1116	13.0737	0.6603	-0.3965	-1.2800	-1.7216	0.0711
-0.1578	12.9377	0.6534	-0.4439	-0.8748	-1.5583	-0.2419
-0.1172	12.9395	0.5766	-0.5143	0.3928	-0.7368	-0.6282
-0.1319	13.4822	0.6345	-0.5188	-0.5252	-1.4324	0.2082
-0.2193	11.6791	0.5545	-0.5602	-0.6324	-1.4500	-0.7369
-0.2105	14.8436	0.6560	-0.8068	-0.1103	-1.1856	0.0409
-0.2551	13.3641	0.6829	-0.4918	-0.8516	-1.6142	-0.6460

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Item 2. The Commission believes that the above analysis could be improved by using a larger sample. If possible, please replicate the above analysis using 250 observations distributed by size and density in approximately the same manner. Please feel free to also provide alternative regression analyses.

RESPONSE:

As requested, I expanded the sample size to a total of 251 observations. A summary of these 251 observations, including the original 55 observations listed in my response to Item 1, is attached as Table 8 at the end of my response to the POIR. On this expanded sample, I repeated the regression exercise described in Item 1. Before discussing the regressions, however, it may be useful, for purposes of comparing the original sample with the larger sample, to present an overview table of estimated percentage postage changes for the larger sample (see below, Table 4: Overview of Estimated Postage Changes – 251 Publications), which is comparable to the table on page 4 of my testimony (Table 1: Overview of Estimated Postage Changes) for the original sample.

Table 4: Overview of Estimated Postage Changes – 251 Publications

	Sample Size		Postage Change (%)	
	Low Density	High Density	Low Density	High Density
Small	51	50	(15.87%) - 89.96%	(13.46%) - 85.77%
Medium	49	50	(22.87%) - 23.66%	(23.87%) - 22.38%
Large	1	50	1.44%	(36.37%) - 27.86%

Among the 101 small publications, 76 will face a postage increase ranging from 0.22 percent to 89.96 percent under the Time Warner Proposed rate structure and rates. Twenty-five publications will incur a moderate postage decrease between 0.36 percent and 15.87 percent.

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

For the medium-size publications, the estimate postage changes are more evenly dispersed in terms of their magnitude as well as direction, which echo the findings presented in my rebuttal testimony. Among the 99 medium publications, 66 will face a postage increase ranging from 0.55 percent to 23.60 percent, while 33 will see a postage decrease between 0.26 percent and 23.87 percent.

Among the 51 large publications, 5 will face a postage increase ranging from 1.44 percent to 27.86 percent. Besides the 27.8 percent increase, which seems an extreme case, the estimated postage increase for the other four observations are all under 7 percent. Ninety percent of the large publications, that is, 46 publications, will see a postage decrease between 2.51 percent and 36.37 percent.

Turning to the regression requested in this item, the result of the first regression using dummy variables is listed in Table 5 (see Table 5: Regression Results with Dummy Variables – 251 Observations). With all the dummy variables replaced with actual values, I ran the regression again, and the results are presented in Table 6 (see Table 6: Regression Results with Actual Values – 251 Observations).

A detailed summary and workbook will be included in USPS-LR-1/C2004-1.

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 5: Regression Results with Dummy Variables – 251 Observations

Regression Output:

Constant				0.2606			
Std Error of Y Est				0.1407			
R Squared				0.4200			
# of Observations				251			
Degrees of Freedom				244			
	Small	Medium	Low Density	Ln (%Editorial)	Ln (Weight)	Ln (Postage)	
X Coefficients	0.1949	0.1175	-0.0514	0.1451	-0.0714	0.2773	
Std Err of Coef	0.0307	0.0275	0.0226	0.0290	0.0220	0.0524	
t-value	6.3591	4.2761	-2.2758	5.0055	-3.2395	5.2905	

Table 6: Regression Results with Actual Values – 251 Observations

Regression Output:

Constant				0.6823		
Std Error of Y Est				0.1397		
R Squared				0.4254		
# of Observations				251		
Degrees of Freedom				245		
	Ln (Issue Size)	Ln (1+Density)	Ln (%Editorial)	Ln (Weight)	Ln (Postage)	
X Coefficients	-0.0362	0.1145	0.1481	-0.0584	0.2627	
Std Err of Coef.	0.0052	0.0602	0.0295	0.0233	0.0576	
t-value	-6.9760	1.9017	5.0245	-2.5066	4.5606	

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Item 3. If possible, please augment the list of variables in either or both samples to include for each observation:

- a. The percentage of the mailing by zone;
- b. The percentage of the mailing that is palletized;
- c. The percentage of the mailing that is presorted to basic, 3-digit, 5-digit, and carrier-route; and
- d. The percentage of postage based on weight.

Please provide the data for the new variables and/or results of regression analyses performed in response to questions 1 and 2 but with the expanded set of variables.

RESPONSE:

Adding the variables listed above, I reran the regression once again. The results are presented in Table 7 (see Table 7: Regression Results of 251 Observations – Expanded Variables). A detailed summary and workbook will be included in USPS-LR-1/C2004-1.

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 7: Regression Results of 251 Observations - Expanded Variables

Regression Output:	
Constant	1.357501
Std Error of Y Est	0.1088
R Squared	0.0929
# of Observations	251
Degrees of Freedom	232
Constant LN(Lease Size) LN(Estimated) LN(Weighted) LN(USPs Postage)	
Constant	1.357591
LN(Lease Size)	-0.0155141
LN(Estimated)	0.1078837
LN(Weighted)	0.211876
LN(USPs Postage)	0.388188
Std Error of Coef.	0.0055631
t-value	8.042
DADC % DSCF % DDU % ZONE 1&2 % ZONE 3 % ZONE 4 % ZONE 5 % ZONE 6 % ZONE 7 % PALLETIZED % 30 % 40 % CR % Weight Postage	
DADC	-0.226821
% DSCF	-0.3327045
% DDU	3.278115
% ZONE 1&2	-0.2329099
% ZONE 3	-0.2973951
% ZONE 4	-0.2542224
% ZONE 5	-0.1778561
% ZONE 6	-0.1260707
% ZONE 7	-0.2324504
% PALLETIZED	-0.114023
% 30	0.3925571
% 40	0.5385719
% CR	0.7230527
Weight Postage	0.2751321
LN(Lease Size) LN(Estimated) LN(Weighted) LN(USPs Postage)	
LN(Lease Size)	-0.0155141
LN(Estimated)	0.1078837
LN(Weighted)	0.211876
LN(USPs Postage)	0.388188
Std Error of Coef.	0.0055631
t-value	8.042

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 8: Revised Summary of 251 Observations

Number of Observation	Publication ID	Size	Density	Editorial %	Piece Weight	USPS Postage per Piece	TW Postage per Piece	% Change in Postage / pc
1	L1	Large	Low	55%	0.39	0.330	0.334	1.44%
2	L10	Large	High	45%	0.90	0.312	0.253	-18.98%
3	L11	Large	High	61%	0.43	0.199	0.154	-22.51%
4	L2	Large	High	85%	0.46	0.273	0.280	2.48%
5	L3	Large	High	75%	0.47	0.271	0.255	-6.02%
6	L4	Large	High	50%	0.41	0.242	0.217	-10.52%
7	L5	Large	High	67%	0.28	0.179	0.160	-10.56%
8	L6	Large	High	64%	0.42	0.210	0.180	-14.60%
9	L7	Large	High	60%	1.48	0.479	0.426	-11.06%
10	L8	Large	High	60%	0.59	0.239	0.209	-12.36%
11	L9	Large	High	57%	0.53	0.235	0.188	-19.69%
12	M1	Medium	Low	100%	0.45	0.283	0.350	23.66%
13	M10	Medium	Low	57%	0.56	0.241	0.186	-22.65%
14	M11	Medium	High	85%	0.40	0.275	0.336	22.31%
15	M12	Medium	High	100%	0.57	0.268	0.307	14.63%
16	M13	Medium	High	62%	0.18	0.222	0.253	13.73%
17	M14	Medium	High	41%	0.98	0.473	0.506	7.04%
18	M15	Medium	High	51%	0.76	0.425	0.452	6.49%
19	M16	Medium	High	50%	0.42	0.309	0.327	5.73%
20	M17	Medium	High	50%	0.49	0.280	0.254	-9.28%
21	M18	Medium	High	61%	0.41	0.215	0.186	-13.26%
22	M19	Medium	High	51%	0.58	0.248	0.204	-17.78%
23	M2	Medium	Low	96%	0.38	0.274	0.311	13.29%
24	M20	Medium	High	58%	0.54	0.228	0.177	-22.26%
25	M3	Medium	Low	50%	0.70	0.446	0.501	12.36%
26	M5	Medium	Low	27%	2.00	0.933	0.911	-2.34%
27	M6	Medium	Low	45%	1.20	0.533	0.507	-4.86%
28	M7	Medium	Low	61%	0.65	0.309	0.272	-11.82%
29	M8	Medium	Low	50%	0.49	0.261	0.229	-12.44%
30	M9	Medium	Low	62%	0.42	0.198	0.153	-22.87%
31	P1HL12	Large	High	50%	0.84	0.299	0.246	-17.57%
32	P1HL13	Large	High	100%	0.66	0.216	0.149	-30.78%
33	P1HL14	Large	High	64%	0.79	0.278	0.223	-19.66%
34	P1HL15	Large	High	49%	0.81	0.314	0.272	-13.61%
35	P1HL16	Large	High	60%	1.19	0.427	0.372	-12.89%
36	P1HL17	Large	High	55%	0.64	0.269	0.219	-18.76%
37	P1HL18	Large	High	45%	0.36	0.235	0.220	-6.62%
38	P1HL19	Large	High	50%	0.63	0.274	0.225	-17.81%
39	P1HL20	Large	High	54%	0.66	0.272	0.217	-20.08%
40	P1HL21	Large	High	51%	0.47	0.229	0.190	-16.76%
41	P1HL22	Large	High	100%	1.13	0.306	0.195	-36.37%
42	P1HL23	Large	High	44%	0.98	0.312	0.258	-17.31%
43	P1HL24	Large	High	72%	0.70	0.291	0.271	-6.81%
44	P1HL25	Large	High	64%	0.82	0.299	0.246	-17.58%
45	P1HL26	Large	High	100%	1.22	0.411	0.526	27.86%
46	P1HL27	Large	High	70%	0.91	0.330	0.274	-16.90%
47	P1HL28	Large	High	51%	0.58	0.277	0.244	-11.97%
48	P1HL29	Large	High	55%	0.54	0.241	0.197	-18.56%
49	P1HL30	Large	High	50%	0.44	0.234	0.203	-13.25%
50	P1HL31	Large	High	74%	0.19	0.167	0.158	-5.28%
51	P1HL32	Large	High	93%	0.25	0.162	0.133	-17.71%
52	P1HL33	Large	High	62%	0.25	0.123	0.095	-22.87%
53	P1HL34	Large	High	77%	0.23	0.141	0.120	-14.79%
54	P1HL35	Large	High	100%	0.49	0.193	0.148	-23.02%
55	P1HL36	Large	High	40%	0.94	0.346	0.307	-11.33%
56	P1HL37	Large	High	78%	0.48	0.273	0.247	-9.51%
57	P1HL38	Large	High	59%	0.47	0.222	0.193	-13.03%
58	P1HL39	Large	High	70%	0.83	0.319	0.265	-16.88%
59	P1HL40	Large	High	51%	0.51	0.233	0.205	-11.91%
60	P1HL41	Large	High	71%	0.31	0.221	0.193	-12.91%

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

61	P1HL42	Large	High	43%	0.59	0.299	0.273	-8.66%
62	P1HL43	Large	High	62%	0.19	0.221	0.216	-2.51%
63	P1HL44	Large	High	50%	0.46	0.235	0.201	-14.44%
64	P1HL45	Large	High	60%	0.37	0.223	0.197	-11.62%
65	P1HL46	Large	High	86%	0.23	0.164	0.145	-11.47%
66	P1HL47	Large	High	55%	0.66	0.256	0.202	-20.89%
67	P1HL48	Large	High	98%	0.23	0.121	0.080	-33.48%
68	P1HL49	Large	High	73%	0.20	0.226	0.233	2.81%
69	P1HL50	Large	High	50%	0.47	0.243	0.218	-10.21%
70	P1HL51	Large	High	57%	0.33	0.253	0.269	6.23%
71	P1HM100	Medium	High	86%	2.31	0.629	0.633	0.55%
72	P1HM61	Medium	High	41%	0.78	0.298	0.251	-15.94%
73	P1HM62	Medium	High	94%	0.23	0.218	0.227	4.14%
74	P1HM63	Medium	High	50%	0.92	0.478	0.507	5.99%
75	P1HM64	Medium	High	80%	0.79	0.340	0.343	1.05%
76	P1HM65	Medium	High	100%	0.09	0.202	0.225	11.54%
77	P1HM66	Medium	High	88%	0.39	0.269	0.292	8.84%
78	P1HM67	Medium	High	85%	0.34	0.234	0.232	-0.69%
79	P1HM68	Medium	High	70%	0.61	0.352	0.413	17.42%
80	P1HM69	Medium	High	76%	0.31	0.261	0.292	11.80%
81	P1HM70	Medium	High	47%	0.89	0.411	0.373	-9.21%
82	P1HM71	Medium	High	37%	2.29	1.014	1.119	10.30%
83	P1HM72	Medium	High	42%	0.36	0.345	0.362	4.68%
84	P1HM73	Medium	High	57%	0.47	0.210	0.183	-12.88%
85	P1HM74	Medium	High	59%	0.51	0.236	0.180	-23.87%
86	P1HM75	Medium	High	100%	1.72	0.489	0.558	14.12%
87	P1HM76	Medium	High	50%	0.45	0.256	0.227	-11.32%
88	P1HM77	Medium	High	54%	0.58	0.314	0.308	-1.78%
89	P1HM78	Medium	High	82%	0.62	0.352	0.413	17.47%
90	P1HM79	Medium	High	51%	0.40	0.244	0.234	-4.18%
91	P1HM80	Medium	High	72%	0.24	0.231	0.254	10.23%
92	P1HM81	Medium	High	95%	0.24	0.211	0.216	2.16%
93	P1HM82	Medium	High	41%	0.78	0.308	0.261	-15.33%
94	P1HM83	Medium	High	61%	0.25	0.206	0.185	-10.09%
95	P1HM84	Medium	High	92%	0.36	0.256	0.267	4.33%
96	P1HM85	Medium	High	57%	0.32	0.342	0.387	12.94%
97	P1HM86	Medium	High	63%	0.25	0.261	0.274	5.03%
98	P1HM87	Medium	High	61%	0.50	0.344	0.412	19.73%
99	P1HM88	Medium	High	51%	0.58	0.241	0.195	-19.11%
100	P1HM89	Medium	High	49%	0.36	0.324	0.350	7.96%
101	P1HM90	Medium	High	100%	0.38	0.242	0.296	22.38%
102	P1HM91	Medium	High	60%	0.41	0.295	0.299	1.43%
103	P1HM92	Medium	High	58%	0.57	0.261	0.217	-17.00%
104	P1HM93	Medium	High	54%	0.57	0.259	0.205	-20.87%
105	P1HM94	Medium	High	63%	0.25	0.236	0.229	-2.84%
106	P1HM95	Medium	High	50%	0.45	0.215	0.181	-15.88%
107	P1HM96	Medium	High	57%	0.34	0.269	0.280	4.12%
108	P1HM97	Medium	High	50%	0.50	0.266	0.234	-12.06%
109	P1HM98	Medium	High	78%	1.11	0.434	0.489	12.65%
110	P1HM99	Medium	High	100%	0.20	0.194	0.198	2.25%
111	P1LM21	Medium	Low	65%	0.79	0.396	0.398	0.74%
112	P1LM22	Medium	Low	45%	0.50	0.402	0.416	3.42%
113	P1LM23	Medium	Low	57%	0.79	0.424	0.435	2.42%
114	P1LM24	Medium	Low	95%	0.15	0.238	0.284	19.21%
115	P1LM25	Medium	Low	26%	0.97	0.683	0.724	6.04%
116	P1LM26	Medium	Low	100%	0.32	0.290	0.305	5.22%
117	P1LM27	Medium	Low	51%	0.31	0.347	0.390	12.45%
118	P1LM28	Medium	Low	59%	0.72	0.391	0.395	0.91%
119	P1LM29	Medium	Low	95%	0.15	0.238	0.284	19.21%
120	P1LM30	Medium	Low	44%	0.43	0.291	0.290	-0.26%
121	P1LM31	Medium	Low	78%	0.24	0.287	0.326	13.88%
122	P1LM32	Medium	Low	100%	0.53	0.299	0.346	15.78%
123	P1LM33	Medium	Low	100%	1.13	0.490	0.530	8.18%
124	P1LM34	Medium	Low	53%	0.64	0.427	0.469	9.93%
125	P1LM35	Medium	Low	50%	0.37	0.342	0.356	4.34%

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

126	P1LM36	Medium	Low	60%	0.33	0.354	0.383	8.18%
127	P1LM37	Medium	Low	68%	0.48	0.352	0.369	4.77%
128	P1LM38	Medium	Low	95%	0.15	0.238	0.284	19.21%
129	P1LM39	Medium	Low	75%	0.62	0.438	0.451	2.86%
130	P1LM40	Medium	Low	75%	0.24	0.289	0.298	3.25%
131	P1LM41	Medium	Low	80%	0.24	0.280	0.315	12.63%
132	P1LM42	Medium	Low	60%	0.35	0.224	0.199	-11.02%
133	P1LM43	Medium	Low	61%	0.49	0.376	0.400	6.53%
134	P1LM44	Medium	Low	52%	0.60	0.286	0.247	-13.62%
135	P1LM45	Medium	Low	35%	0.96	0.403	0.367	-8.93%
136	P1LM46	Medium	Low	50%	0.31	0.325	0.355	9.03%
137	P1LM47	Medium	Low	81%	0.30	0.212	0.209	-1.81%
138	P1LM48	Medium	Low	89%	0.31	0.273	0.295	8.27%
139	P1LM49	Medium	Low	62%	0.60	0.436	0.427	-2.07%
140	P1LM50	Medium	Low	77%	0.63	0.358	0.386	8.04%
141	P1LM51	Medium	Low	47%	0.31	0.341	0.355	4.06%
142	P1LM52	Medium	Low	52%	0.53	0.408	0.438	7.28%
143	P1LM53	Medium	Low	70%	0.41	0.319	0.336	5.43%
144	P1LM54	Medium	Low	95%	0.15	0.238	0.284	19.21%
145	P1LM55	Medium	Low	50%	0.40	0.350	0.365	4.49%
146	P1LM56	Medium	Low	81%	0.24	0.261	0.283	8.48%
147	P1LM57	Medium	Low	41%	0.45	0.424	0.483	13.80%
148	P1LM58	Medium	Low	91%	0.13	0.222	0.264	18.75%
149	P1LM59	Medium	Low	47%	0.44	0.377	0.388	2.97%
150	P1LM60	Medium	Low	100%	0.44	0.333	0.331	-0.43%
151	M4	Medium	Low	40%	0.53	0.406	0.414	2.04%
152	S1	Small	Low	65%	0.28	0.301	0.503	67.18%
153	S10	Small	Low	97%	0.11	0.229	0.230	0.55%
154	S11	Small	High	68%	0.16	0.292	0.526	80.00%
155	S12	Small	High	47%	0.19	0.222	0.335	50.80%
156	S13	Small	High	60%	0.46	0.256	0.352	37.29%
157	S14	Small	High	71%	0.41	0.255	0.338	32.64%
158	S15	Small	Low	97%	0.39	0.261	0.316	21.00%
159	S16	Small	High	41%	0.28	0.231	0.260	12.51%
160	S17	Small	Low	98%	0.46	0.283	0.317	11.99%
161	S18	Small	High	100%	0.07	0.214	0.234	9.35%
162	S19	Small	High	75%	0.15	0.186	0.203	8.98%
163	S2	Small	Low	75%	0.27	0.286	0.424	47.98%
164	S20	Small	High	26%	1.90	0.647	0.674	4.10%
165	S21	Small	High	35%	0.13	0.250	0.242	-3.18%
166	S22	Small	High	90%	0.06	0.134	0.132	-1.38%
167	S23	Small	High	42%	0.48	0.324	0.310	-4.26%
168	S24	Small	High	33%	1.20	0.416	0.393	-5.46%
169	S3	Small	Low	69%	0.18	0.325	0.429	32.01%
170	S4	Small	Low	100%	0.36	0.266	0.345	29.55%
171	S5	Small	Low	100%	2.64	0.767	0.989	28.86%
172	S6	Small	Low	86%	1.22	0.491	0.553	12.53%
173	S7	Small	Low	100%	0.11	0.244	0.273	12.00%
174	S8	Small	Low	59%	0.20	0.304	0.315	3.52%
175	S9	Small	Low	100%	0.20	0.337	0.341	1.27%
176	QHS25	Small	High	44%	0.20	0.173	0.172	-0.36%
177	QHS26	Small	High	100%	0.10	0.206	0.181	-12.19%
178	QHS27	Small	High	79%	0.24	0.264	0.297	12.50%
179	QHS28	Small	High	65%	0.26	0.260	0.380	45.94%
180	QHS29	Small	High	94%	0.25	0.210	0.195	-7.00%
181	QHS30	Small	High	59%	0.20	0.229	0.205	-10.40%
182	QHS31	Small	High	99%	0.77	0.326	0.322	-1.26%
183	QHS32	Small	High	83%	1.87	0.631	0.732	16.12%
184	QHS33	Small	High	26%	0.35	0.334	0.416	24.53%
185	QHS34	Small	High	100%	0.55	0.291	0.315	8.23%
186	QHS35	Small	High	42%	0.30	0.203	0.185	-8.98%
187	QHS36	Small	High	100%	0.06	0.164	0.152	-7.76%
188	QHS37	Small	High	82%	0.26	0.248	0.325	31.09%
189	QHS38	Small	High	43%	0.38	0.328	0.533	62.71%
190	QHS39	Small	High	28%	0.13	0.225	0.240	6.92%

Revised: Oct. 28, 2004

REVISED RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

191	QHS40	Small	High	81%	0.16	0.236	0.351	48.78%
192	QHS41	Small	High	100%	0.25	0.262	0.331	26.52%
193	QHS42	Small	High	66%	0.53	0.340	0.377	10.81%
194	QHS43	Small	High	100%	1.55	0.542	0.650	19.87%
195	QHS44	Small	High	61%	0.10	0.215	0.230	7.15%
196	QHS45	Small	High	100%	0.57	0.323	0.599	85.77%
197	QHS46	Small	High	100%	0.64	0.346	0.527	52.11%
198	QHS47	Small	High	70%	0.26	0.261	0.290	10.89%
199	QHS48	Small	High	99%	0.67	0.303	0.341	12.67%
200	QHS49	Small	High	63%	0.28	0.223	0.231	3.48%
201	QHS50	Small	High	100%	0.32	0.240	0.230	-4.01%
202	QHS51	Small	High	26%	1.14	0.604	0.753	24.65%
203	QHS52	Small	High	100%	0.91	0.409	0.636	55.45%
204	QHS53	Small	High	100%	0.52	0.268	0.295	10.23%
205	QHS54	Small	High	100%	0.18	0.197	0.194	-1.31%
206	QHS55	Small	High	100%	0.08	0.168	0.175	4.30%
207	QHS56	Small	High	71%	0.27	0.230	0.247	6.96%
208	QHS57	Small	High	50%	0.15	0.227	0.259	14.19%
209	QHS58	Small	High	100%	0.46	0.252	0.253	0.22%
210	QHS59	Small	High	76%	0.31	0.192	0.166	-13.46%
211	QHS60	Small	High	72%	0.98	0.476	0.705	48.08%
212	QHS61	Small	High	100%	2.64	0.663	0.889	34.07%
213	QHS62	Small	High	64%	0.37	0.278	0.489	75.71%
214	QHS63	Small	Low	39%	0.71	0.508	0.527	3.76%
215	QHS64	Small	Low	92%	0.63	0.437	0.428	-2.06%
216	QHS65	Small	Low	99%	0.95	0.390	0.378	-3.15%
217	QHS66	Small	Low	80%	0.17	0.298	0.339	13.83%
218	QHS67	Small	Low	87%	0.46	0.317	0.363	14.25%
219	QHS68	Small	Low	76%	0.13	0.339	0.297	-12.62%
220	QHS69	Small	Low	34%	0.29	0.345	0.356	3.25%
221	QHS70	Small	Low	75%	0.12	0.347	0.292	-15.87%
222	QHS71	Small	Low	44%	0.08	0.372	0.314	-15.64%
223	QHS72	Small	Low	40%	1.73	0.842	0.852	1.13%
224	QHS73	Small	Low	100%	0.23	0.268	0.289	7.94%
225	QHS74	Small	Low	84%	0.59	0.340	0.367	7.70%
226	QHS75	Small	Low	77%	0.45	0.342	0.375	9.54%
227	QHS76	Small	Low	58%	0.33	0.396	0.526	32.78%
228	QHS77	Small	Low	80%	0.19	0.251	0.295	17.33%
229	QHS78	Small	Low	99%	1.25	0.439	0.571	30.01%
230	QHS79	Small	Low	28%	0.12	0.322	0.343	6.70%
231	QHS80	Small	Low	66%	0.22	0.308	0.321	4.44%
232	QHS81	Small	Low	100%	0.56	0.381	0.606	59.02%
233	QHS82	Small	Low	70%	0.13	0.349	0.311	-10.89%
234	QHS83	Small	Low	100%	0.46	0.311	0.346	11.43%
235	QHS84	Small	Low	56%	0.49	0.356	0.361	1.30%
236	QHS85	Small	Low	43%	0.63	0.440	0.397	-9.84%
237	QHS86	Small	Low	95%	0.15	0.301	0.281	-6.35%
238	QHS87	Small	Low	83%	0.11	0.338	0.289	-14.62%
239	QHS88	Small	Low	50%	0.65	0.429	0.449	4.72%
240	QHS89	Small	Low	47%	0.35	0.407	0.370	-9.15%
241	QHS90	Small	Low	63%	0.56	0.391	0.426	9.03%
242	QHS91	Small	Low	71%	0.37	0.367	0.545	48.70%
243	QHS92	Small	Low	54%	0.23	0.370	0.425	14.76%
244	QHS93	Small	Low	100%	0.24	0.297	0.564	89.96%
245	QHS94	Small	Low	46%	0.39	0.356	0.371	4.19%
246	QHS95	Small	Low	100%	1.99	0.660	0.982	48.89%
247	QHS96	Small	Low	100%	0.66	0.312	0.361	15.76%
248	QHS97	Small	Low	66%	0.27	0.305	0.331	8.52%
249	QHS98	Small	Low	55%	1.02	0.503	0.688	36.61%
250	QHS99	Small	Low	67%	0.33	0.338	0.327	-3.19%
251	QHS100	Small	Low	72%	0.08	0.279	0.407	46.11%

Revised: Oct. 28, 2004

R2005-1

United States Postal Service

**Eliane Van-Ty-Smith
(USPS-T-11)**

RESPONSES OF POSTAL SERVICE WITNESS VAN-TY-SMITH
TO INTERROGATORIES OF TIME WARNER, INC

TW/USPS-T11-5 You describe a new cost pool that you call 1DSPATCH. At page 7 in your testimony you refer to it as "the dispatch unit."

- b. Please confirm that "the dispatch unit" is defined by MODS numbers 124-129. If not confirmed, please give the correct numbers.

- d. In what fiscal year was the 1DSPATCH pool first used to produce the CRA reports?

- e. Before you introduced 1DSPATCH as a separate pool, which pool or pools would work under MODS numbers 124-129 have been assigned to?

- f. What is the normal craft and pay level for employees in this pool?

- g. Please describe the changes in USPS mail processing operations that caused you or the Postal Service to conclude that the new cost pool needed to be included in the MODS/IOCS costing scheme.

RESPONSE:

RESPONSES OF POSTAL SERVICE WITNESS VAN-TY-SMITH
TO INTERROGATORIES OF TIME WARNER, INC

- b. Confirmed.
- c. Redirected to witness McCrery, USPS-T-29.
- d. Please see the response to TW/USPS-T11-1(a).
- e. Before FY02, operations 124-129 were in the 1POUCHNG cost pool. The MODS descriptions for operations 124-129 in FY 01 were 'Pouching Operations'.
- f. Redirected to witness McCrery, USPS-T-29.
- g. Please see the response of the United Postal Service to TW/USPS-T11-1e, and also the text on page 6, lines 24-33, and page 7, lines 1-2 of my testimony.

RESPONSES OF POSTAL SERVICE WITNESS VAN-TY-SMITH
TO INTERROGATORIES OF TIME WARNER, INC

TW/USPS-T11-6 You describe a new cost pool that you call 1FLATPRP.

- a. Please confirm that this pool is defined by MODS number 035. If not confirmed, please give the correct number(s).
- b. In what fiscal year was the 1FLATPRP pool first used to produce the CRA reports?
- c. Before you introduced 1FLATPRP as a separate pool, which pool would work under MODS number 035 have been assigned to?

RESPONSE:

- a. Confirmed
- b. Please see the response to TW/USPS-T11-1(a).
- c. In FY 2001, operation 035 was assigned to the AFSM 100 cost pool. The MODS description for operation 035 in FY 01 was 'Prep Operation – AFSM 100.'

RESPONSES OF POSTAL SERVICE WITNESS VAN-TY-SMITH
TO INTERROGATORIES OF TIME WARNER, INC

TW/USPS-T11-7 You describe a new cost pool that you call 1OPTRANS. At page 7 in your testimony you refer to it as "the opening unit's manual transport."

- b. Please confirm that 1OPTRANS is defined by MODS number 114. If not confirmed, please give the correct number(s).
- c. In what fiscal year was the 1OPTRANS pool first used to produce the CRA reports?
- d. Before you introduced 1OPTRANS as a separate pool, which cost pool would work under MODS number 114 have been assigned to?
- f. Please describe the changes in USPS mail processing operations that caused you or the Postal Service to conclude that 1OPTRANS needed to be included as a separate pool in the MODS/IOCS costing scheme.

RESPONSE:

RESPONSES OF POSTAL SERVICE WITNESS VAN-TY-SMITH
TO INTERROGATORIES OF TIME WARNER, INC

- b. Confirmed.
- c. Please see the response to TW/USPS-T11-1(a).
- d. In FY 2001, operation 114 was assigned to the opening cost pool 1OPPREF
The MODS description for operation 114 in FY 01 was 'Outgoing Unit – Outgoing
Pref.
- f. Please see the response of the United Postal Service to TW/USPS-T11-1e. and
also the text on page 6, lines 24-33, and page 7, lines 1-2 of my testimony

RESPONSES OF POSTAL SERVICE WITNESS VAN-TY-SMITH
TO INTERROGATORIES OF TIME WARNER, INC

TW/USPS-T11-8 You describe a new cost pool called 1TRAYSRT. At page 6 in your testimony you refer to it as "the tray sorters and robotics cost pool."

- a. Please confirm that 1TRAYSRT is defined by MODS numbers 618, 619 and 627-629. If not confirmed, please give the correct numbers.
- b. In what fiscal year was the 1TRAYSRT pool first used to produce the CRA reports?
- c. Before you introduced 1TRAYSRT as a separate pool, which cost pool(s) would work under MODS numbers 618, 619 and 627-629 have been assigned to?

RESPONSES OF POSTAL SERVICE WITNESS VAN-TY-SMITH
TO INTERROGATORIES OF TIME WARNER, INC

TW/USPS-T11-9 Is the pool called "1PRESORT" any different from the "Bulk Presort" pool used in previous rate filings? If yes, please explain. In any event, please answer the following.

- a. Please confirm that 1PRESORT is defined by MODS numbers 002 and 003. If not confirmed, please give the correct numbers.

RESPONSE:

No, "1PRESORT" is not any different from "Bulk Presort".

- a. Confirmed.

R2001-1

United States Postal Service

Institutional

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

AOL-TW/USPS-25 The Postal Service's response to AOL-TW/USPS-11 suggests that putting Periodicals on airplanes may sometimes be desirable. The example given is that when Periodicals flats are sorted on an FSM immediately before the sortation of First Class flats, it may not be cost efficient to "sweep" the Periodicals in order to keep them separate from First Class mail. The response indicates that such sweeping might increase Periodicals processing costs more than the extra costs of air transportation.

a. Please confirm that during an FSM operation the "flat trays" (tubs) into which flats are sorted are removed when full and replaced with empty tubs.

b. Can it be presumed that the example given in AOL-TW/USPS-11 refers to tubs that have received some Periodicals flats but are not yet full by the time the change to First Class flats processing occurs? If no, please explain further.

c. Why would the Postal Service sort Periodicals flats immediately before sorting First Class flats? Please indicate the sorting schemes and the times of day when this is likely to occur.

d. Has the Postal Service conducted any cost analysis to verify the assertion that it is cheaper to put Periodicals flats on airplanes instead of sweeping them before a switch is made to First Class flats? If yes, please provide all reports, conclusions and supporting documentation generated by such studies.

e. If analysis of the cost trade-off were to show that sweeping Periodicals in half-empty trays costs more than letting them travel by air with First Class, would not the same conclusion apply to Standard A mail? If no, please explain why the cost trade-offs are different for Periodicals and Standard A.

f. Does the Postal Service have any written instructions for FSM operators and/or supervisors with respect to when it is and is not appropriate to sweep Periodicals or Standard A flats before starting First Class sortation? If yes, please provide a copy of those instructions.

RESPONSE

a) Confirmed.

b) Yes.

c) Periodicals sortation would likely take place during late Tour 2 into Tour 3 when the First Class Mail sortation would start. It may also occur during a lull time when Periodical Mail is on hand and awaiting processing before the collection mail arrives.

d) No.

[R2001-1]

Tr. 10A]

2721

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

e) Since no such cost analysis exists, one cannot say what the cost differences or similarities would be. There is an operational difference that may be relevant to the issue. Since Standard Mail is normally processed on Tour 2, it would probably be cleared long before the Periodical Mail and First Class Mail would be ready for processing. Therefore, the opportunity to commingle Standard and First Class seems much less likely, than for Periodicals and First-Class Mail.

f) The Postal Service does have written instructions for FSM supervisors contained in USPS-LR-J-173 (AFSM 100 National Standardization Guide and the AFSM 100 Standardization Supervisors Guide). These instructions do not specifically address a particular class of mail but just refer to "mail" in general to be processed.

Revised
11/20/2001

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

AOL-TW/USPS-26 Please indicate what types of FSM sorting schemes generate output that receives air transportation (when the flats are First Class) to the next facility in which the flats will be processed. In particular:

- a. Please confirm that, regardless of class, flats that are sorted in an incoming secondary scheme will not be transported by air to their next facility. If not confirmed, please state what the exceptions are and whether any such exceptions occur in the contiguous 48 states.
- b. Please confirm that, regardless of class, flats that are sorted in an incoming primary scheme will not be transported by air to their next facility. If not confirmed, please state what the exceptions are and whether any such exceptions occur in the contiguous 48 states.
- c. Please confirm that, regardless of class, flats that are sorted in an SCF primary scheme will not be transported by air to their next facility. If not confirmed, please state what the exceptions are and whether any such exceptions occur in the contiguous 48 states.
- d. Please confirm that, regardless of class, flats that are sorted in an ADC primary scheme will not be transported by air to their next facility. If not confirmed, please state what the exceptions are and whether any such exceptions occur in the contiguous 48 states.
- e. Is it reasonable to assume that a flat sorting scheme that generates output whose destination is far enough away to require air transport (if the flats are First Class) must be either an outgoing primary or an outgoing secondary scheme? If no, please state what the exceptions are and whether any such exceptions occur in the contiguous 48 states.
- f. Please explain the Postal Service's current policy regarding the distances over which First Class flats will be transported by air instead of by surface. Please also explain any changes that may have occurred in this policy during the last three years, and any changes being contemplated before FY2004.
- g. Roughly what percentage of the flats sorted at an outgoing flats primary operation is to destinations far enough away to require air transportation when the flats are First Class?

RESPONSE

- a) Not confirmed. In the contiguous 48 states, the exceptions are those instances where there is no surface transportation available. Examples include air taxis from Toledo to islands in Lake Erie, and air taxis from the mainland to certain islands off the New England coast.

Revised
11/20/2001

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

destination. Incoming critical entry time normally falls between 1500 and 1800 hours with some exceptions.

162.3 Three-Day Delivery

All other remaining areas within the United States must be routed by air or surface transportation to achieve 3-day delivery. Mail with 3-day service standards must utilize routings that meet the critical entry time of 8 a.m. (Day 2) at the area distribution center (ADC) or automated area distribution center (AADC). Special bracketing options as described in Chapter 2 may be used in some cases.

No changes are contemplated to this policy.

g) The percentage of flats that "require air transportation" is unknown.

The choice of mode is determined by each plant and constrained by the availability of transportation at each originating facility.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

AOL-TW/USPS-27 Please assume that a flats tray (tub), containing some Periodicals flats on the bottom and First Class flats on top, is removed from an FSM. Assume further that the tray is closed and labeled before being dispatched.

- a. Would the person who closes and labels this tray normally take time to determine whether or not there are Periodicals flats at the bottom?
- b. Assuming correct labeling, is it possible to determine that this flats tray contains First Class flats by looking at the label without opening the tray? If yes, please explain how.
- c. Assuming correct labeling, is it possible to determine that this flats tray also contains some Periodicals by looking at the label without opening the tray? If yes, please explain how.

RESPONSE

- (a) No.
- (b) Yes. Trays with mixed classes must be labeled according to the highest class of service contained in the tray. In this case, the tray would be labeled as First-Class Mail.
- (c) No. See response to part (b) above.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

AOL-TW/USPS-28 Please refer to your answers to AOL-TW/USPS-10 and AOL-TW/USPS-16, where you state: "certain time-sensitive Periodicals are sometimes flown from Seattle to Anchorage." Please clarify as follows.

- a. Does "certain time-sensitive Periodicals" refer to a specific list of Periodicals with whom an agreement or understanding exists that they will be flown to Anchorage from Seattle?
- b. Does the statement mean that sometimes there is insufficient First Class, Priority and Express mail to fill the dedicated space on a Seattle-to-Anchorage air taxi and that in those cases the excess space is filled with time-sensitive Periodicals that happen to be available in Seattle and ready to be transported to Alaska?
- c. If you answered no to both a and b above, please explain exactly what "certain time-sensitive Periodicals" refers to.
- d. Does it sometimes happen that monthly Periodicals are flown from Seattle to Anchorage?
- e. Does it sometimes happen that Standard A mail is flown from Seattle to Anchorage?
- f. Please explain why this particular route is mentioned in two interrogatory responses when evidently Periodicals are flown on other routes as well. Are the policies for use of this route different from the policies governing the use of all other dedicated airlift routes? If yes, why? If no, on which other routes do similar policies apply?

RESPONSE

a. No. There was a specific list 20 years ago when the Postal Service changed from daily service via highway contract route to water, but the list is outdated. We generally refer to "time-sensitive periodicals" as weekly periodicals that are news-related like Newsweek

In order to be responsive to the Periodicals' mailers involved in the switch to water service, the Postal Service placed their mail on an air taxi operating between Seattle and Anchorage. The responses to AOL-TW/USPS-10 and AOL-TW/USPS-16 refer to these "grandfathered" time-sensitive Periodicals that continue to be routinely flown from Seattle to Anchorage.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

b. No. The time-sensitive periodicals in question are treated like First-Class Mail or Priority Mail. They have the same boarding priority and do not move on a space available basis.

c. See the response to parts a and b above.

d. One cannot exclude this from the realm of possibilities. However, flying monthly periodicals is not part of the program discussed in the response to AOL-TW/USPS-16. Please see the response to AOL-TW/USPS-12c.

e. One cannot exclude this from the realm of possibilities. Flying Standard A mail is not in accord with normal dispatch and routing procedures. Please see the response to AOL-TW/USPS-12c.

f. The Seattle to Anchorage route was mentioned twice in an effort to provide a comprehensive response to the earlier AOL-TW questions. This situation is indeed exceptional for the reasons laid out in the response to part a. Other than a similar route to southeast Alaska, no other routes are known to share this unusual dispatch feature. In general, Periodicals can be found on a Seattle to Anchorage flight for three possible reasons:

1) The Periodicals are part of the "grandfathered" group described in response to part a above.

2) The Periodicals are intermixed in a flat or other container with First-Class, Priority or Express Mail.

3) The periodicals are dispatched to air transportation by mistake.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

JL-TW/USPS-29 Please refer to your answers to AOL-TW/USPS-14. You first describe the purchase of airlift by the pound and pound-mile from commercial airlines. You then describe a number of ways in which the Postal Service in FY2000 purchased "dedicated airlift". Please clarify the term "dedicated airlift." In particular:

- a. Does "dedicated airlift" refer to airplanes that carry USPS mail only? If no, what else do they carry?
- b. Does "dedicated airlift" mean that the Postal Service buys a fixed amount of airlift capacity for which it will pay the same amount whether the capacity is fully utilized or not?
- c. Does "dedicated airlift" include any other type of contract where the costs vary less than proportionately with volume? If yes, please explain.
- d. What are the average per-pound and per-pound-mile costs to the Postal Service for domestic dedicated airlift routes?
- e. What are the average per-pound and per-pound-mile costs to the Postal Service for transportation of mail on commercial airlines?
- f. Assume that an airplane that is part of a "dedicated airlift" route is only half full. What are the Postal Service's marginal per-pound and per-pound-mile costs of adding one extra pound to the cargo on that airplane?

RESPONSE

- a. Yes.
- b. It is unclear what is meant by "fixed" in this question. Obviously, each aircraft has a fixed cubic capacity, but dedicated airlift capacity can be adjusted up or down in response to persistent volume changes in a number of ways, such as:
 - 1) Larger or smaller aircraft can be used.
 - 2) Cities can be added or subtracted from the flight plan.
 - 3) Larger or smaller engines can be fitted to an existing aircraft.

Also, more capacity does not always cost more. If the marketplace for a desired, larger aircraft is favorable, it may be possible to lease a larger aircraft at less cost than a smaller aircraft. This phenomenon was discussed with regard to the WNET by Postal Service witness Pickett in Docket R2000-1. [Tr. 43/18534]

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

- c. No. The assumed volume variability of all dedicated airlift is 100 percent.
- d. In BY2000, the cost per pound of mail flying on Postal Service dedicated air networks was \$1.00232180/lb. The cost per pound-mile of mail flying on Postal Service dedicated air networks was \$0.00079418/lb-mile. Dedicated costs represent BY2000 costs for the cost pools labeled as Eagle Network, Daynet and HASP, Western Network, and Air Taxi in witness Meehan's B workpaper 14.3. These costs do not include costs found in the Christmas cost pool. Dedicated pounds are BY2000 volume scanned to dedicated flights as found in the Postal Service operations scan data (Planned vs. Actual). Dedicated pound-miles represent BY2000 distances traveled by volume on dedicated air networks. The underlying mileages are from origin directly to final destination (GCD miles).
- e. In BY2000, the cost per pound of mail flying on the Postal Service passenger air network (ASYS) was \$0.37791445/lb. The cost per pound-mile of mail flying on the Postal Service passenger air network was \$0.00026039/lb-mile. Passenger Air costs represent BY2000 costs for the cost pools Passenger Air in witness Meehan's B workpaper 14.3. Passenger air volumes are BY2000 volume scanned to passenger flights as found in the Postal Service operations scan data (Planned vs. Actual). Passenger pound-miles represent BY2000 distances traveled by volume on dedicated air networks. The underlying mileages are for each leg of a passenger air flight (route miles).

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL-TIME WARNER

f. The assumption does not reflect operational practice. In the normal course of events, dedicated air transportation is full. In the case of a fixed capacity network, the marginal cost of adding an additional pound of mail to dedicated airlift in FY2000 is the marginal cost of putting the pound of mail on commercial air. Putting an additional pound on dedicated airlift means bumping a pound onto commercial air, hence the marginal cost of an additional pound of mail on dedicated airlift is the marginal cost of putting a pound on commercial air. In a variable capacity network, marginal cost is determined by the operating costs of the network under the assumption of 100 percent volume variability.

In the temporary scenario described the question, a one-time addition of mail on an otherwise half-empty plane, would, in that single instance, have a marginal cost of zero. However, if this condition persisted, the Postal Service could choose to modify the capacity of the route as described in the response to part b. In such a case, the variability would be non-zero. Please note that in the test year, all dedicated airlift costs, other than Christmas, are assumed to be zero. See the testimonies of witnesses Hatfield (USPS-T-18) and Patelunas (USPS-T-12).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL TIME WARNER, INC.**

AOL-TW/USPS-30 In Docket No. R2000-1, the Postal Service filed USPS library reference LR-I-88, titled 'Flats Bundle Study.' LR-I-88 is relied upon also in the present docket. Several of its numbers are used in the flats mail flow models in LR-J-61 sponsored by witness Miller.

LR-I-88 contains a spreadsheet called 'FINAL_Density.XLS', which described the downflows from bundle sorting operations of bundles at different presort levels from containers at different presort levels. The purpose of the following questions is to determine the proper interpretation of the bundle downflow percentages on worksheet 'Final Down Flows' in that spreadsheet.

- a. Please confirm that the percentages shown represent weighted averages for flats bundles from sacks and pallets and from different mail classes. If not confirmed, please explain.
- b. Please confirm that the percentages shown represent weighted averages for mechanized and manual bundle sorting operations. If not confirmed, please explain.
- c. Please confirm that for each container presort level (MADC [Mixed ADC], ADC, 3D, 5D and Carrier Route) the percentages shown describe the further disposition, after bundle sorting, of bundles at each presort level from containers with the given presort level. If not confirmed, please explain.
- d. Please confirm that, for each applicable combination of container and flats bundle presort level, the numbers on the line called 'Piece' represent the percentages of such bundles that after the bundle sort would be brought directly to a flats piece sorting operation. If not confirmed, please explain.
- e. Please confirm that for 5-digit bundles that are in 3-digit containers at the start of the bundle sort, 21.69% are shown as going directly to a piece sorting operation. Please also confirm that the remaining 78.31% are shown as going to a 5-digit bundle sorting operation. If not confirmed, please explain.
- f. Please confirm that when in a 3-digit bundle sort operation one and only one container receives the bundles going to a given 5-digit zone, that container will receive a mixture of 5-digit and carrier route bundles, requiring a further bundle sort. Please confirm also that such 5-digit bundles are included in the 78.31% referred to in part e of this interrogatory. If not confirmed, please explain.

RESPONSE:

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL TIME WARNER, INC.**

- a. Confirmed.
- b. Not confirmed. The downflow densities are based on mechanized bundle sorting operations only.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL TIME WARNER, INC.**

AOL-TW/USPS-31 Please refer to the bundle sorting density data from USPS LR-I-88.

- a. Please confirm that a bundle with MADC (Mixed ADC) presort that is sorted from an MADC container is shown as always going directly to piece sorting at the end of the bundle sort. If not confirmed, please explain.
- b. Please confirm that a bundle with ADC presort that is sorted from an MADC container is shown as never going directly to piece sorting and always requiring a subsequent ADC bundle sort. If not confirmed, please explain.
- c. Please confirm that in the case of 3-digit bundles sorted from MADC containers, 6.18% are shown as going directly to piece sorting, while 74.45% go to an ADC bundle sort operation and the remaining 19.38% go to a 3-digit bundle sort operation. If not confirmed, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF AOL TIME WARNER, INC.**

AOL-TW/USPS-32 Please refer to the bundle sorting density data from USPS LR-1-88. That library reference contains a spreadsheet titled 'SUMMARY.XLS', which contains, separately for Standard A and Periodicals flats bundles, the estimated average number of handlings involved in sorting a bundle with a given presort level from a container at a given presort level.

- a. Please confirm that the numbers in 'SUMMARY.XLS' represent weighted averages for mechanized and manual bundle sorting operations. If not confirmed, please explain.
- b. Please confirm that for a given combination of container and bundle presort levels, and a given class, the number of handlings shown in spreadsheet 'SUMMARY.XLS' is the number of handlings required to achieve the corresponding bundle downflows shown in spreadsheet 'FINAL_Density.XLS'. If not confirmed, please explain.
- c. Please confirm that, in the case of Periodicals, an average of 1.17 bundle sorts is required before a bundle with MADC sort level, from an MADC container, can be sent to piece sorting. If not confirmed, please explain.
- d. Please confirm that, in the case of Periodicals, an ADC bundle in an MADC container requires an average of 1.1 bundle sorts before reaching its proper ADC container. If not confirmed, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

R2005-1

**Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association
Inc.**

**John Haldi
(VP-T-2)**

ADVO-XE-11

HALDI TABLE A-9	HALDI	KNOWN OVERSTATEMENT		
		A.N.N.E.	Other	Explanation
Abilene Money Clip	1,242,696			
Crookston Shopper	561,600			
EI Flyer	12,090,000			
EI Pennysaver	57,200,000		57,200,000	Duplicates Harte-Hanks
Focus on Results	13,708,164	13,708,164		Included in A.N.N.E.
Green Tree Marketing	3,613,464			???
Mail-Net	53,834,040			
Market Select	5,252,000	5,252,000		Included in A.N.N.E.
Maryland/Virginia Pennysaver	66,652,300		66,652,300	No DAL
National Mail It	26,573,696	26,573,696		Included in A.N.N.E.
Pittsburg Pennysaver	37,107,380			
Readers Digest Label Carrier Program	1,000,000		1,000,000	Periodical - No DAL
Reading Merchandiser	5,053,932		5,053,932	Private delivery
Stone Creek Mailbox Shopper	2,408,688	2,408,688		Included in A.N.N.E.
Target Direct	2,822,112	2,822,112		Included in A.N.N.E.
Target Marketing of Maine	7,220,076	7,220,076		Included in A.N.N.E.
Tucson Shopper	14,235,832			
Value pages	18,700,000			
ValuMail	24,365,544	24,365,544		Included in A.N.N.E.
Wal-Mart C&D County Wrap	32,843,965		32,843,965	Included in Advo total
HALDI TOTAL	386,485,489	82,350,280	162,750,197	
ADJUSTED TOTAL	141,385,012			

HALDI TABLE A-10	HALDI	KNOWN OVERSTATEMENT		
		A.N.N.E.	Other	Explanation
Allanta Savings & Values	52,000,000		52,000,000	Nonsaturation TMC
Cap Media	25,537,668	25,537,668		Included in A.N.N.E.
Cincinnati Reach	7,800,000		7,800,000	No DAL
Cleveland Plain Dealer Statements	1,800,000		1,800,000	1st Class Ltr - No DAL
Dallas Ad Pages	9,060,000			
Echoland-Piper Shoppers/Morris	1,391,000		1,391,000	Duplicates Morris
Flashes Shoppers/Morris	8,241,012		8,241,012	Duplicates Morris
Heartland Shoppers/Morris	7,698,756		7,698,756	Duplicates Morris
Jasper-Okatie Sun Shoppers/Morris	226,200		226,200	Duplicates Morris
Morris Communications Shoppers	27,819,584		27,819,584	Private Delivery
Phoenix Saguaro Gold	6,762,000		6,762,000	No DAL
Phoenix Value Clipper	9,435,514			???
Polk Shoppers/Morris	4,598,100		4,598,100	Duplicates Morris
Tip-Off Shoppers/Morris	1,000,636		1,000,636	Duplicates Morris
Town & Country News/ Morris	520,000		520,000	Duplicates Morris
HALDI TOTAL	163,890,470	25,537,668	119,857,288	
DJUSTED TOTAL	18,495,514			